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Partners placed total industry AUM at GBP284.5 billion, equivalent to an 8 per cent growth rate. In their most recent Q3 2018 quarterly report, AUM was GBP286.6 billion. Having had a good start to the year, there has been a noticeable slowdown in activity in the second half of the year.

“We have tracked fewer new launches, and assets under management have remained broadly flat this year,” says Georg Reutter, Managing Partner, Kepler Partners LLP. “Demand from allocators remains strong, although investors are rightly becoming more selective when selecting...
their managers. There have also been some high profile funds struggling for performance this year, which isn’t helping.”

He says that the winners have tended to be managers with established track records of delivering uncorrelated returns. There have been notable successes in the Event Driven space, particularly Merger Arbitrage funds, where returns have been strong recently. Macro remains a hot topic and any strategy offering some form of ‘tail risk’ protection.

“We have recently launched an Asia-focused Macro strategy on our UCITS platform. The KLS Arete Macro fund launched in July and has enjoyed significant interested thanks to its unique approach to macro investing and strong track record,” suggests Reutter.

Some of the top performing funds this year, to date, include Odey Swan, an equity long/short fund up over 28 per cent, BlackRock Emerging Markets Absolute Return, a market neutral fund up 15 per cent, MontLake North MaxQ Macro UCITS, a macro strategy with gains of 14 per cent, and GAM Star Alpha Technology, another equity long/short fund, up 12.5 per cent.

As with every aspect of investing, there are always strong performers that stand out from the competition across strategies, even if the broader strategy indexes are a sea of red.

Looking at the Absolute Hedge (AH) UCITS Index, every strategy is in negative territory YTD. The AH Global Index is down -3.2 per cent compared to +3.6 per cent in 2017, while the AH Equity Long/Short Index is down -2.5 per cent compared to +6.9 per cent in 2017. AH Managed Futures Index is by far the worst performer, down -8.9 per cent YTD.

Moez Bousarsar, Deputy-Head of Hedge Fund Selection, Lyxor Asset Management tells Hedgeweek that a few funds on its Alternative UCITS Platform have generated good returns in 2018. The Lyxor/Tiedemann Arbitrage Strategy, a merger arbitrage strategy, is up 4.36 per cent YTD, he says, adding that Lyxor / Sandler US Equity, a US equity long/short variable bias fund, is up almost 3.65 per cent.

“We have a couple of other funds that have weathered the market volatility and have managed downside risk very carefully,” says Bousarsar. “One is a credit long/short fund managed by Chenavari, up 1.43 per cent and the other fund is the Lyxor Epsilon Global Trend Fund, a CTA programme which is only down -2.76 per cent YTD. That is quite impressive compared to its wider CTA peer group.”

Bousarsar admits that at a broad industry level performance has been challenging. One of the key asset gathering strategies last year was alternative risk premia but this year these strategies have struggled badly. “Global macro and CTAs have found it challenging and even some equity long/short strategies have been adversely affected by market rotation and increased volatility. There was quite a severe drop in equity markets in October so people have been more cautious to allocate to these strategies.

“We cherry pick the best managers that we think can offer investors steady returns, capability to preserve capital and mitigate downside risk. If funds do not offer those characteristics, they will not have succeed in attracting new inflows; or at the very least they would have been more muted,” remarks Bousar.

Short-term CTAs seem to be managing the markets well and some discretionary macro managers that were positioned for market disruption a couple of years ago have also done well – e.g. the MontLake North MaxQ UCITS fund – but equity and fixed income managers have found it tough.

This would ordinarily be one of the strongest times of the year for raising assets, as mid-Sep to mid-November is when a lot of institutions make decisions as to what their allocations will be for the upcoming year.

“Demand from allocators remains strong, although investors are rightly becoming more selective when selecting their managers. There have also been some high profile funds struggling for performance this year, which isn’t helping.”

Georg Reutter, Kepler Partners
Not that this has been a problem for ML Capital, an independent UCITS and AIF platform operator and provider of management company services.

“From our perspective, 2018 is proving to be a strong year. We had already surpassed 2017’s full-year asset raising targets by the end of Q2,” says Richard Day, Partner and COO, ML Capital.

The ML Capital Group oversees in excess of USD7 billion in total AUM and has evolved into one of the industry’s leading names in European fund structuring and distribution.

Even if 2018 turns out to be a flat year for alternative UCITS, it is hard to argue against just how far the space has come in the last decade. Granted it is still largely dominated by equity and fixed income-related strategies that fit easily within the confines of the UCITS rules, but there is now a far wider array of strategies, some of which are quite complex UCITS funds, such as multi-factor UCITS, CLO-related UCITS, credit long/short UCITS and so on.

“We have seen a shift in investor appetite in response to changes in the market,” remarks Philip Lovegrove, Partner in law firm Matheson’s Asset Management Department. “A decade ago, we would have worked on many more funds taking significant commodity exposure through UCITS-eligible indices but there hasn’t been a push to make those products available, given how commodity markets have fared in the last few years. The fixed income space has become more active and multi-factor strategies have proven popular as people find new ways to extract value out of equity markets.

“I think once managers get into the UCITS space, put in the initial expenditure, get comfortable operating in that space and understand from a distribution perspective what the potential is, they will continue to launch products. For institutional investors, it’s just much easier for them to complete their due diligence on UCITS than it is for an offshore hedge fund. We find that a large majority of UCITS are sold to institutional investors, although they are manufactured in compliance with retail investor standards. This makes life a lot easier for fund managers when it comes to marketing UCITS.”

“I think once managers get into the UCITS space, put in the initial expenditure, get comfortable operating in that space and understand from a distribution perspective what the potential is, they will continue to launch products.”

Philip Lovegrove, Matheson
Ultimately, when someone is thinking of launching a less liquid strategy, they should have a clear risk framework around the underlying portfolio to meet liquidity terms offered to investors in a worst-case scenario.

This is something that ML Capital has most recently helped Highland Capital with. The big US CLO fund manager operates the Highland Flexible Income UCITS Fund on MontLake UCITS. It invests in US and European structured products through a combination of fundamental security analysis and dynamic allocation across ratings categories. Understanding the liquidity aspects of safely operating a CLO UCITS fund was integral at the pre-launch phase.

Diversified products for different markets
Goldman Sachs Fund Solutions has a comprehensive platform solution that straddles alternative risk premia products and more traditional hedge fund strategies. The platform provides investors with access to unique internal strategies via regulated funds (UCITS and AIFMD-compliant funds), unregulated funds, as well as managed accounts. In addition, it offers investors access to carefully selected external alternative fund managers; referred to specifically as the Third Party Managed (UCITS) Platform.

The Goldman Sachs’ team can launch either passive risk premia products or work with asset managers to provide solutions where they selectively pick Goldman Sachs’ risk premia products and manage them on an active basis.

A good example of this is Aberdeen, who are managing a portfolio of risk factors in two funds with different volatility levels on the platform.

“We have a team who develop indices and systematic trading strategies and sit within the Securities Division. We are not a fiduciary so the way we deploy those strategies in funds is either through a passive fund structure, which tracks a strategy or a portfolio of strategies and automatically rebalances, or by working with an external asset manager to allow them to build bespoke portfolio solutions using our menu of indices,” outlines Camilla Haux, Executive Director at Goldman Sachs.

Ben O’Bryan is Executive Director and
Head of Fund Solutions, Goldman Sachs. He says that “alternative risk premia strategies and alternative UCITS are viewed with equal importance”.

“It is important to offer clients a diversified range of products for their different needs and for different points in the market cycle so we do not emphasise one platform over another. Some clients are looking at and investing in both whereas some are only investing in hedge fund UCITS because they feel they are not yet ready to invest in alternative risk premia, or vice-versa.

“This funds platform within the Securities Division at Goldman Sachs is an important part of our business mix. We want to make sure we remain cutting edge not just as a platform provider but also in terms of the way the products are developed and structured.”

The platform choice conundrum

One of the key considerations for institutional investors is determining how best to access alternative UCITS funds. There are plenty of good platform choices in the marketplace but what are the criteria to consider before allocating to funds on one platform versus another?

“I think the first consideration should be, ‘Is this a platform with a robust infrastructure and risk management, compliance and due diligence framework?’ suggests Andrew Dreaneen, Head of Liquid Alternatives, Schroders. “Secondly, does the platform have managers that the investor wants to invest in? In some cases you may like the manager and not the platform and vice-versa.”

On the margins some platforms have restructured and retreated, while some new platforms have emerged. Indeed, bank-owned platforms such as those operated by Merrill Lynch and Morgan Stanley, have vacated the space.

Asset managers such as Lyxor have a different philosophy to banks, as they invest in the funds they launch, alongside their investors. “We have all of the set-up in place in terms of legal, compliance, financial engineering, risk and distribution to serve the needs of investors and satisfy the regulators, without any type of conflict of interest,” says Bousarsar.

“The platforms you see on the prime brokerage side were very successful but they have reached a difficult time where they need to make a decision. They need to meet a lot more regulatory requirements (including MiFID II) and they need to operate completely separate from the PB business, which includes investing in more people, systems and technology to get in line with what regulators are looking for.

“I think it has become very challenging for some banks to continue operating that business model because the level of investment in people and infrastructure to be made presents a high barrier for them to continue. Some would prefer to focus on running their profitable prime brokerage business and work with managers in that capacity, rather than run platform and distribution services.”

If funds on bank platforms were to self-launch or move to another platform and grow to USD1 billion, for example, and still use the bank’s prime brokerage service, then that’s still a very healthy commercial relationship they can have with alternative UCITS fund managers.

“Perhaps some banks are realising they can still be just as close to these hedge fund managers even if they launch their fund on other platforms; particularly independent platforms that use an open architecture, which gives managers flexibility as to the service providers they use.

“The fact we’ve seen a number of banks retreat at the same time is intriguing, part of the rationale may relate to the increased...
costs and complexities of operating an asset manager within an investment bank and a focus on more core business lines. As the alternative UCITS industry has matured, banks no longer need to operate these platforms as a defence mechanism given they can still provide structuring and prime brokerage services to most fund managers without needing to provide the actual UCITS platform,” suggests Dreaneen.

In the current environment, the complexities of running a UCITS platform business have arguably risen in response to increased regulation. Going forward, even if there are fewer bank-owned platforms for investors – and indeed fund managers – to consider, these institutions will still participate in the growth of the alternative UCITS industry through their prime brokerage arms, offering swap contracts and bespoke solutions rather than necessarily having to host managers on a platform.

**Platform ecosystem continues to support managers**

For fund managers wishing to break into the alternative UCITS space, one of the key questions they should ask themselves, in relation to platforms, is: ‘Do I launch my own standalone fund, or do I set up a sub-fund on a platform?’ The answer to this will largely depend on scale. How much does the manager genuinely think they will raise in assets? If they are a small manager with fewer resources, who expects to raise a modest amount of assets, then the platform solution is a faster, more cost-effective way to get a UCITS fund to market.

“If, on the other hand, you have sufficient scale yourself as a fund manager to put in place compliance and manager oversight resources as a standalone UCITS ManCo or self-managed investment fund, or you have good expectations for the product, you might lean towards setting up your own standalone fund because over time, a product might have sufficient AUM such that paying for a third party platform service may not be the best option for that fund.

“It is also possible for managers to transfer products which have been set up on third party platforms to become their own standalone funds. I think that platform providers understand this are generally happy to facilitate it – they have an appreciation that their platform services may not fit everybody over time and they can frequently continue to support managers who set up a standalone fund by other means,” explains Lovegrove.

UCITS ManCos have done a very good job of providing an easy access point into Europe for managers who would not ordinarily have been able to do so on their own, given the costs involved.

It can be an expensive undertaking and there is a lot of knowledge involved in establishing a UCITS fund; a lot of
is to launch the GAIA II platform to support AIFMD-compliant funds, alongside its GAIA platform for UCITS-compliant funds.

“There are questions as to whether there should be more harmonisation between UCITS and AIFMD and our view is that UCITS works very well, it is a gold standard and we are not advocating change. Under AIFMD, however, there is full flexibility to structure funds as this is manager-focused, not product-focused regulation.

“Therefore, having an AIF platform alongside our UCITS platform gives us the ability to create all types of hedge fund strategies.

“Another part of the rationale behind launching the GAIA II platform was that if there was a correlation in the more liquid end of the market when the next market downturn happens, then investors may want to look beyond UCITS to harvest returns from certain strategies which may be concentrated, highly levered or less liquid and therefore unsuitable for UCITS (there has been a 1.4 per cent per annum give-up between investing in UCITS versus the average hedge fund over the past 10 years) they might look to increase their allocation to AIFs. Not to say they would turn their backs on UCITS altogether, but perhaps look to rotate a portion of their alternatives allocation into AIFs,” explains Dreaneen.

There is already one AIFMD-compliant fund on GAIA II and over time, more will be added. Thereby giving Schroders the ability to respond to the supply/demand dynamics as investors look for more sophisticated, customised ways to access ‘liquid alternatives’; including AIFs as well as alternative UCITS. ML Capital and Lyxor both also offer AIF platform solutions.

Reutter offers the following concluding thought on what may lie ahead for the alternative UCITS marketplace: “We continue to believe that alternatives play an important role in investor portfolios, especially in times of heightened uncertainty.

“Alternative UCITS has established itself as the premier access point for both managers and investors and allows for strategies to be offered in regulated and liquid format. This has to be a good thing for investors, and as such we believe the sector will continue to grow.”

registered requirements to meet, rules to understand. By using a plug-and-play model, a fund manager does not need to know the complexities of the local market.

Ultimately though, it will depend on the manager’s own individual expectations of having a UCITS product as to how they use a platform over time.

“Some managers with funds on MontLake UCITS want to partner with us on a broader basis,” explains Day, in relation to active distribution support.

“In these instances we are more than happy to talk with them because they are a known quantity to us and we are always looking for new high quality funds to introduce to our investor base. This concept of just running around distributing third party funds we have no fiduciary role over is not something we want to do, or ever have done. But people do need help and we feel we are well placed to support them with our 6 person strong distribution team.”

At Schroders, Dreaneen and his team are speaking to hedge fund managers of all sizes across a variety of investment strategies to seek out the best propositions for its client base. As is the case with ML Capital, Lyxor and Goldman Sachs, the approach is highly targeted and discerning. It is about building quality not quantity. These platforms want total confidence that the managers they work with will succeed, both in terms of performance and fund raising.

This could make it more challenging, going forward, for managers to get on to third party platforms but one way that Schroders has tweaked its value proposition
By bringing together people, capital and ideas, Goldman Sachs produces solutions and results for our clients. Our Fund Solutions team within the securities division helps clients access both unique internal cross asset content and a select group of external alternative asset managers.
Amundi partnership underscores GS commitment to UCITS

Interview with Ben O’Bryan & Camilla Haux

Back in February 2018, Goldman Sachs’ Securities Division, announced that it was partnering with Amundi with regards to its Luxembourgish funds based on the bank’s proprietary systematic strategy suite as well as to help support and expand its alternative UCITS offering. Amundi will take on the role as management company of the whole fund range and in addition become the investment manager for the proprietary systematic UCITS and SIF platforms.

Much was made of the announcement, with some in the media looking for ulterior motives; was this a regulatory response of some sort? Was this a sign that Goldman Sachs had lost confidence in the alternative UCITS fund arena?

Not in the slightest. In fact, the decision to partner with Amundi, Europe’s largest asset manager with an estimated EUR1.4 trillion in AUM, was a sign of intent. A way to redouble its efforts by allowing an independent management company to oversee the growth of the platform – which in total includes two UCITS umbrella structures and one SIF umbrella – with the highest level of governance and independent scrutiny.

“The decision was based on us wanting to achieve a couple of things with the platform,” explains Ben O’Bryan, Executive Director at Goldman Sachs. “First, to reinforce the governance framework of the platform. Second, to standardise our systematic products, which are predominantly swap-based funds tracking our own indices. We wanted to appoint an independent investment manager to handle all of the passive investment management activities.”

The first phase of the transition has now been completed with O’Bryan confirming that Amundi took over as the investment manager to one of the UCITS umbrellas (Structured Investments) on 10th September, where they manage in the region of USD2.2 billion in AUM.

The second UCITS platform, which offers investors access to both alternative fund managers and externally managed funds accessing Goldman’s risk premia products, will remain under the purview of Goldman Sachs Fund Solutions.

By the end of the transition phase, Amundi will act as the management company to three umbrellas. Amundi already acts as the management company to over 300 Luxembourg sub-funds (UCITS and AIFs) with assets totaling EUR144 billion.

The decision to appoint Amundi as the investment manager to its internal systematic fund strategies was made so as to combine Goldman Sachs’ own product expertise with Amundi’s scale and experience.

O’Bryan hopes that the strength of this partnership will counter any lingering concerns that Goldman Sachs may be considering a similar exit from the UCITS funds sector as some of its competitors.

“We are committed to the alternative UCITS space,” he says.

“We are very excited about this partnership with Amundi,” comments Camilla Haux, Executive Director at Goldman Sachs. “This is in no way a de-prioritisation of our platform. In fact, it is a way to enhance what we would like to do.

“We are in expansion mode and plan to grow the platform and launch more products. It is a key area of focus for us because it allows us to further diversify our client base. The Securities Division has made a very clear commitment to the funds’ business.”
In the next 6 months, the intention is to launch several new UCITS products, with strategies ranging from systematic long-only, passive and managed alternative risk premia to new hedge fund collaborations.

O’Bryan thinks that having the partnership with Amundi, as a management company to UCITS funds, will be helpful “in terms of providing the oversight of our fund range”.

“On the investment management side,” says O’Bryan, “it will provide opportunities to increasingly deliver on our own ideas and bring systematic strategies to the market in a fund format. I have no doubt that having a capable and experienced investment manager will help with this.”

Haux says that Goldman Sachs continues to be opportunistic in building out the product pipeline. The group is open and willing to work with hedge fund managers that it believes can add value to the platform.

“We receive a lot of requests from hedge fund managers gauging our interest in launching UCITS funds but we are selective. We don’t want too many of one type of manager or product.

“There is always demand for good hedge fund and alternative risk premia strategies, especially uncorrelated ones that can diversify a traditional portfolio. The focus is therefore on finding strategies that are complementary to those already on the platform and that fit with institutional investor demand.

“We see this partnership with Amundi as a way to build a bigger, stronger platform, especially with their expertise of being a management company, their passive investment management skills and their analysis of strategies,” outlines Haux.

Goldman’s role as the platform arranger and global distributor, with respect to the Third Party Manager (UCITS) umbrella, will not change in this new partnership with Amundi. The team will continue to bring forth external hedge fund managers to grow the overall universe of funds being offered to investors, but in its role as the management company, Amundi will perform detailed due diligence and ongoing oversight of each manager.

“All systematic as well as active products will have to go through the Amundi due diligence process when coming on to our platform,” says O’Bryan. “They are highly experienced alternative strategies selectors in their own right and we will leverage that expertise in terms of operational due diligence, making sure strategies comply with UCITS rules and so on.”

Goldman Sachs hopes to build an even stronger array of UCITS and other fund products, both passive and active, over the coming years, in this new strategic alliance with Amundi.

“It is a critical relationship for us and extremely important for our investors. They know that someone independent and very capable is looking after their interests and their capital. It’s a big exercise to make this transition and not something we’ve taken lightly,” concludes O’Bryan.
Strength and Experience

Matheson’s Asset Management and Investment Funds Department is the number one ranked funds law practice in Ireland, acting for 29% of Irish domiciled investment funds by assets under management as at June 2017.

Led by 12 partners, our team of funds lawyers advises a large number of the world’s leading asset management firms. We have experience in UCITS and alternative investment funds including property funds, private equity funds, ETFs, money market funds, loan funds, fund of funds and ICAV structuring.

Pictured above at our Dublin office are members of the team, led by Tara Doyle, Head of Matheson’s Asset Management and Investment Funds Department.

For further information, please contact Tara at tara.doyle@matheson.com or any of your usual contacts at Matheson.

Matheson. The law firm of choice for internationally focused companies and financial institutions doing business in and from Ireland.
Bank loan UCITS could present future growth opportunity

Interview with Philip Lovegrove

The days of managers setting up new long-only large-cap US equity UCITS are largely gone, according to Philip Lovegrove, partner in law firm Matheson’s Asset Management Department. “Products are getting more complex and one of the manifestations of this is that for a number of years now, we have been seeing a lot of strategies and instruments that have traditionally belonged in the hedge fund world being brought into the UCITS world,” says Lovegrove.

This assumes the strategy fits the regime, however. Indeed, sometimes the biggest constraint on UCITS can be the ‘eligible assets’ rules. These rules forbid UCITS from investing in commodities directly or, in many cases, in financial derivatives instruments which provide indirect exposure to commodities.

“If you have a strategy that makes heavy use of commodities or more illiquid assets you may well be constrained when you are looking to obtain exposure via UCITS,” says Lovegrove. “People can use certain commodity indices and, to a lesser extent, ‘Delta One’ securities but there are constraints around the use of both of those.”

That is not to suggest that some asset classes, such as bank loans, will not be used in a UCITS fund structure. One of the key aspects of eligibility is the depth of liquidity as pertains to the underlying instrument. As the Financial Times reported, the leveraged loan market has become a USD1 trillion asset class.

“At present only a limited sub-set of bank loans will meet the eligibility criteria and even those interpretations may be subject to challenge by regulators.

“We understand there may be concerns that perhaps the UCITS eligible assets rules are set too widely in some areas but there are also views that the rules are not wide enough in other areas. It may be that, as markets evolve, the product range within the UCITS universe could change as well. However, I do think it’s appropriate that regulators take a cautious attitude to any such changes and don’t tamper too much with the rules because UCITS is such a well-established brand,” explains Lovegrove.

Complex instruments, such as Delta One instruments, meet the eligible assets criteria but can be far more difficult to understand, from a risk perspective, than a bank loan.

“I would guess that the regulators framing the original UCITS directive probably didn’t have some of the more complex asset-backed securities in mind and modern regulators may share some nervousness around the use of these assets by UCITS. By comparison, we believe that there is a strong argument that bank loans are inherently understandable to a retail investor and may therefore be suited to inclusion in the UCITS world.

“The possibility of some form of review of UCITS eligible assets, maybe as part of ‘UCITS VI’ has been rumoured (and denied!) for some time. If it happens, we may see some tweaking of the rules for determining eligible assets,” adds Lovegrove.

Fund managers can opt to use an AIF product if they have concerns over the appropriateness of their strategy in a UCITS format.

“We see a lot of interest in the Irish QIAIF product space for credit strategies, loan origination strategies, real estate and private equity strategies. It is entirely appropriate that these strategies do not work in a UCITS context because of their complexity, liquidity and risk profiles,” concludes Lovegrove.
Does investing need to be a bumpy ride?

As traditional asset classes become more correlated, more and more investors are turning to liquid alternatives for genuine diversification. If your clients’ focus is on a smoother path to their investment goals, Schroders can help you navigate this complex asset class.

We manage over $21bn in liquid alternatives, across a diverse range of funds aiming for growth, diversification or inflation protection.

Please remember that the value of investments and the income from them may go down as well as up and you may not get back the amount originally invested.

Market downturn could attract fresh source of capital

Interview with Andrew Dreaneen

Alternative UCITS funds experienced a 16 per cent growth in AUM in 2017, with total assets exceeding USD522 billion according to LuxHedge, an alternative UCITS index provider. Over that period, a record 248 new funds launched and the sense was that investor sentiment remained upbeat.

However, if one assesses 2018, there are indications that this level of growth will be difficult to replicate with one data source, Kepler Partners, suggesting that industry AUM has only increased by 1 per cent from Q317 to Q318 (quite a contrast to the 20+ per cent annualised growth rate witnessed over the last nine years.

“If you look at Kepler’s Absolute Hedge (AH) Global Index, returns are down -1.3 per cent year-to-date compared to 3.7 per cent for 2017,” says Andrew Dreaneen, Head of Liquid Alternatives, Schroders. “Broadly speaking, investors are a little reluctant to make new investment decisions. Overall, however, one would think that the concerns over trade wars, or later stage cycle volatility, would bode quite well for alternative UCITS because they play a longer-term role in portfolios where it is less important to time the asset class.”

If one looks back at periods such as 2008 and 2011, when investors were particularly nervous about market volatility, it did not lead to an immediate uptick in inflows. It’s not during a downturn, but the period immediately thereafter, that one tends to see an uptick in demand for liquid alternatives, according to Dreaneen: “I think we are experiencing a bit of that holding pattern right now. Investors are wondering what to do and are sitting on their current portfolio allocations. October has been a volatile month so it is going to be interesting to see how investors position themselves in the run up to year end and in the first quarter of 2019 when we tend to see the most asset allocation activity.”

The Schroder GAIA platform is one of Europe’s best known and biggest alternative UCITS platforms, with AUM currently stood at approximately USD6.5 billion.

“There have been 57 fund launches so far this year and about USD4.4 billion has been raised. The number one fund in terms of assets is Schroder GAIA Wellington Pagosa, which has raised more than USD400 million, while another of our funds, Schroder GAIA Contour Tech Equity has raised around USD200 million. Both of these funds are in the top ten, in terms of assets raised,” confirms Dreaneen.

Schroder GAIA Wellington Pagosa is a multi-strategy fund that invests in long/short equity strategies both directional and market neutral, long/short credit, EM macro, and discretionary macro RV. It was launched in direct response to investor demand, some of whom have become risk averse, others who are keen to build diversified portfolios of alternative UCITS funds and wish to do so as efficiently as possible by allocating to multi-strategy, multi-manager products.

Schroder GAIA Wellington Pagosa, which launched in February 2018, meets that demand as it is diversified across 10 distinct and complementary hedge fund strategies managed by 26 of Wellington’s most seasoned and highly skilled portfolio managers.

“It plays to those looking for a single allocation to get a broad, diversified alternative UCITS portfolio, targeting 6 to 8 per cent annualised returns with 5 to 7 per cent volatility. That kind of return profile is definitely popular with some investors, and in some countries we are even seeing demand
for funds seeking a lower risk return profile 2 to 4 per cent annualised returns with commensurate volatility,” notes Dreaneen.

He is in no doubt that even if overall growth softens this year, there is plenty of future potential for at the industry level, especially if there is a more meaningful downturn in the markets in the near future.

“If there is a material downturn in the market, I do expect industry growth to pick up pace again. We have no shortage of clients looking at products and doing due diligence. It is on par with what we’ve seen in previous years it’s just the allocations have materially slowed at an overall asset management industry level not just liquid alternatives.

“By no means does the last 12 months signal the end of alternative UCITS. I still feel the industry has huge opportunities to grow from here, based on the conversations we are having,” asserts Dreaneen.

This is where the skill-set of the platform operator comes into sharp focus. There are thousands of funds in the industry but the trick is to identify the best-in-class managers who are willing and able to deliver their offshore strategy in a UCITS wrapper, to meet investor demand. This is what Schroder GAIA has cultivated over the years, building a carefully selected universe of high quality funds that not only deliver returns but attract substantial investor assets.

Even if the industry suffers the jitters it is not to suggest that demand for highly differentiated unique sources of alpha is going to disappear. As the industry starts to mature there is a greater demand for innovative strategies as investors become more selective on where they put their incremental dollars, especially with markets being so choppy.

“We launched the platform in November 2009 and every year we see new countries and new distribution channels open up,” observes Dreaneen.

“As such, we do see demand for alternative UCITS across the board and it cuts across many channels. In some cases, investors can only allocate to UCITS, so it’s a straightforward conversation. In other cases, they can also buy offshore funds and want a detailed comparison between the UCITS fund versus the offshore fund to make an informed decision.

“By no means does the last 12 months signal the end of alternative UCITS. I still feel the industry has huge opportunities to grow from here, based on the conversations we are having.”

Andrew Dreaneen, Schroders

“Over the last 12 months, we’ve seen one or two institutional investors who previously used Cayman funds deciding to make an allocation to a Schroder GAIA fund. On the margin, we have also seen more interest this year among consultants. That gives us confidence in the future growth of alternative UCITS. In most cases, people are looking to do more in this space, even if that hasn’t yet been backed up by cash flows.”

Institutional and mass retail channels are huge areas of growth for alternative UCITS and Schroders is well positioned with a franchise of over 30 alternative UCITS funds and more than 850 distribution, product and solutions professionals globally.

Dreaneen estimates that by channel, 65 per cent are intermediaries, which cut across asset managers, private banks, family offices and fund-of-funds and 35 per cent are institutions; insurance companies and pension funds.

He states that Schroders’ network of 850-plus team of client facing professionals is a “critical component” to the success of the GAIA platform.

“We listen to what clients are looking for,” says Dreaneen, “and react to that the best way we can. It is a critical component to how we onboard strategies and new managers. Our pipeline is always based upon where we see the most demand.”

Being able to understand what clients’ sensitivities are to fees, to liquidity terms, to volatility, etc, helps the Schroder GAIA team to create and design relevant products. It is a very iterative process.

“Managers value the insights we bring to the table based on what the demand picture looks like. The draw card for managers is to tap into our vast distribution network and ideally hit the ground running with their fund, which has been vetted by clients from a design perspective and in some cases seeded as well,” concludes Dreaneen.
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*Hedge Fund Journal Awards 2018
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Lyxor group is composed notably of two subsidiaries: Lyxor Asset Management S.A.S and Lyxor International Asset Management S.A.S.

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Lyxor Asset Management is one of Europe’s leading asset managers and has been expertly selecting hedge fund strategies since 1998. Lyxor has enjoyed great success since it started launching UCITS funds on its dedicated Alternative UCITS platform at the beginning of 2013. Over that period, the platform has grown at an average rate of 30 per cent. More specifically, since January 2018, it has enjoyed 49 per cent growth. Total AUM stands at USD4.1 billion (as of September 2018) and the platform features 13 UCITS funds, nine of which are external managers including the likes of TIG Advisors, Chenavari, Metori, Winton Capital, and Sandler.

“We are proud of the achievements we have made on the platform so far this year,” says Moez Bousarsar, Deputy-Head of Hedge Fund Selection, Lyxor Asset Management. “Year-to-date, we’ve added over USD1 billion of new investor inflows and our ranking among alternative UCITS platforms has risen to number 3, behind Schroders and Merrill Lynch.”

Merrill Lynch’s USD6.5 billion MLIS platform was sold to Generali in July this year. As other bank platforms retreat, including Morgan Stanley’s USD3.4 billion FundLogic platform, asset managers are stepping up their game. Lyxor has no doubt about the future growth of the alternative UCITS space and is targeting to grow the platform to USD6 billion within the next three years.

“From our perspective, the demand for UCITS remains firm. Our house view is that by 2020 there could be USD100 billion of additional assets flowing into the UCITS space. We hope to capture a portion of that capital but the question is, How?

“It really goes back to our DNA. Lyxor has a long track record of hedge fund selection. After nearly 20 years at the forefront of multi-management, we have established ourselves as privileged partner to some of the biggest names in the alternative management space. Our platform is built on a strong process of onboarding strategies we think could create diversification or present the perfect timing to benefit from where we are in the market cycle.

“The strategies we select on the platform help investors navigate through the market cycle. That is why despite challenging markets and challenging performance in 2018, we believe we have the appropriate strategies to help investors achieve their return goals. If we continue to do so, and we see that additional USD100 billion of industry inflows by 2020, reaching USD6 billion in AUM for the platform seems like a realistic target,” outlines Bousarsar.

He believes growth will be fuelled by demand for diversifying strategies, not only from investors familiar with investing in alternative strategies but also from new types of long-only investors such as private bank clients, mutual funds and asset managers. Alternative UCITS will provide new investors access to diversifying strategies in a liquid, transparent, tax efficient, and regulated format, says Bousarsar.

“We are late in the cycle and our recommendation to investors is to diversify from long beta-type strategies to more absolute return strategies. We are positioned around three key axes: i) favour stock/ bond selection strategies, ii) leverage the global M&A upswing, iii) favour strategies that benefit from rising bond yields. We maintain an Overweight stance on Event-Driven and Merger Arbitrage in particular.”

The platform has just teamed up with Dymon Asia to launch the Lyxor/Dymon Asia Macro fund, a discretionary global macro fund with an Asia focus and plans to add an Emerging Market debt fund before the end of 2018. A third fund in the pipeline is a statistical arbitrage equity market neutral fund, scheduled to launch in Q1 2019.

As the alternative UCITS market continues to mature, some strategies have become commoditised. When this happens, one tends to see a flattening of the AUM curve. Lyxor guards against this by constantly asking itself what it can do differently to support future growth on the platform: looking for niche strategies with differentiating asset classes and geographic exposures and always striving to diversify its clients’ portfolios across all market cycles.

“To drive the future growth, you have to be selective and have a genuine DNA in hedge fund selection,” stresses Bousarsar. “Some 80 per cent of the partnerships on our UCITS platform are with non-EU managers. That has always been the platform philosophy. But along with the manager selection, investors now want a high-quality, broader and integrated service: portfolio management, access to our senior members and fund analysts, comprehensive risk and operational due diligence as well as efficient European distribution and in-depth knowledge of regulatory frameworks across the main European markets.”

In Alt UCITS we trust

Interview with Moez Bousarsar

Moez Bousarsar, Deputy-Head of Hedge Fund Selection at Lyxor Asset Management
You manage, we operate

ML Capital is your structuring expert for UCITS and AIFMD fund solutions. Helping clients bring new products to the market simply and cost effectively is just one way that we deliver value. Our specialist team will structure and operate your fund, while our experienced sales team will support your asset raising ambitions.

+353 1 535 0912
info@mlcapital.com
mlcapital.com
Delivering a Brexit-proof distribution model

Interview with Richard Day

For UK fund managers, distribution in a post-Brexit environment is very topical. It is one of the single biggest challenges that UK managers are grappling with, as well as managers based around the world who wish to do business in Europe.

ML Capital, an independent European regulated fund structurer that is best known for its MontLake UCITS and MontLake QIAIF platforms, is cognisant of this and is focusing its efforts on delivering the right level of support to managers who use its platform and management company services.

“We provide platform hosting plus distribution services,” says Richard Day, COO at ML Capital. “We also operate a number of regulated entities. We have a Super ManCo license for UCITS funds and AIFs in Ireland, which is passported across Europe to Luxembourg, France and Malta. In addition, we maintain MiFID licensed firms in Ireland and the UK.”

Historically, fund distribution in the UCITS space has been done by investment managers using MiFID entities. By having dual MiFID licenses for Ireland, an EU Member State, and the UK, ML Capital is nicely positioned to help its clients overcome the distribution challenges as a result of Brexit.

ML Capital has a two-fold approach to distribution, namely Passive and Active, which focuses on the manager and the investor respectively. ML Capital ensures the highest possible service quality for all fund structures on its MontLake UCITS platform so that the investor has the best possible investment experience.

Passive distribution is offered to all fund managers and focuses on market accessibility and visibility, ranging from the regulatory requirements of passporting to specific investor needs, such as tax reporting, platform accessibility and much more.

Active distribution, on the other hand, is only offered to a small handful of fund managers on MontLake UCITS. ML Capital has seven active sales people dedicated to selling funds on the platform who come from a range of cultural backgrounds across Europe. Core sales regions include the UK, Ireland, French-speaking parts of Europe (Geneva, Paris, Benelux), German-speaking parts of Europe (Zurich, Austria and Germany) and Italy.

“For managers who are looking for a pan-European – including the UK – distribution partner, we have all the licenses in place to support them,” says Day.

“We are one of the only players in this space to have a proven active distribution business. As people grapple with the issues around Brexit, they are looking for partners that not only have the regulatory approval but also understand the complexities of what it takes to do distribution across Europe.

“Over the last nine years, we have firmly supported managers to help them navigate a complex distribution landscape in Europe. We’ve done this by being a distribution-led firm that understands what it takes to raise capital, not only for the funds we are out raising capital for, but also supporting third party distribution partner to funds on our platform.”

ML Capital is, in some ways, benefiting from an increasingly complex regulatory environment. Aside from Brexit, new regulatory developments in Europe such as MiFID II are making it harder for UCITS platforms to operate and offer effective distribution solutions.

“Some of our competitors who have
traditionally operated as UCITS management companies are coming up with and selling distribution solutions to support managers in the looming post-Brexit environment. But their backgrounds and businesses would typically not have been built on the fundamentals of active distribution.

“...a better calibre of manager which is more interesting from a distribution standpoint,” suggests Day. He says that extending distribution services to a broader range of clients on the platform is a proposition ML Capital is quite comfortable with. “...it isn’t too much of a leap of faith for us to step in and support them in their fund distribution activities, regardless of what the Brexit deal ends up being. “We can provide business certainty to fund managers and I think that is being well received.”

ML Capital’s sales team has an ongoing dialogue with investors across Europe to determine the issues they face today, from a UCITS investment perspective. Where do they feel there is a lack of manager supply? What are the issues they are facing in their investment portfolios? With correlations rising in the market, which managers and strategies can help diversify some of the risks away in an investor’s portfolio?

Day is keen to stress, however, that such active distribution support is not offered on a standalone basis. “We are only willing to offer distribution support to clients to whom we have a fiduciary role. We have our reputation to think about.

“In terms of our existing client base, a number of them have come to us asking for help it’s not too much of an extension of our fiduciary role to support them in a post-Brexit distribution environment. We are open to that. The UK will, in all likelihood, lose its right to distribute funds into Europe. Whatever the final Brexit deal looks like, we have the distribution model in place to help our clients.”

Richard Day, ML Capital

ML Capital

“The reality of running a UCITS platform business is that it is highly resource intensive. If you want to operate a platform and be a solution provider to third party managers who wish to run UCITS funds, it comes with a reasonably high labour cost and you need a strong team in place.

“At ML Capital, we have implemented a very robust and scalable operating model so we can make it work, we are also independently owned hence we are non-conflicted. We’ve seen managers who might previously have gravitated towards bank-owned platforms coming to us and we are currently working on a few new launches