HEDGEFUNDMANAGER
HFMWEEK
The *long* and the *short* of it
ISSUE 285 6 December 2012

BNY Mellon hits top spot as FoHF sector shrinks

HFMWeek's admin survey shows 2% contraction as list sees new leader

BY WILL WAINEWRIGHT

THE FUND OF HEDGE funds (FoHF) sector contracted 2% during the past six months, according to *HFMWeek's* latest administrator survey, as sluggish performance continues to test the patience of investors and firms committed to the space.

In an unexpected development, BNY Mellon displaced long-time leader Citco Fund Services at the top spot after a $20bn rise in FoHF assets under administration (AuA), although the list is broadly characterised more by decline than growth.

HFMWeek's survey, which rounds up the FoHF AuA of 64 admin firms, indicates the industry shrank from $1.09bn to $1.07bn within the six months through October.

Orla Nallen, a managing director and FoHF specialist at BNY Mellon Alternative Investment Solutions, told *HFMWeek* that outsourcing trends among FoHF managers had been key to her unit's 17% advance, which took FoHF AuA from $111bn to $131bn.

BNY Mellon's ability to service both FoHFs and the platforms they sit on has also proved a fruitful business winner, capturing growth in one booming part 03

PART 2: FUNDS OF HEDGE FUNDS

Change is afoot in the contracting FoHF sector. *HFMWeek* examines the consequences for administrators

REGULATION

Specialist: record expert network conversations

Insider trading case highlights regulation of expert networks

STEVE COHEN OF SAC

ALL CONVERSATIONS organised by expert network firms should be compulsorily recorded, an industry specialist has told *HFMWeek*, as a former SAC Capital Advisors portfolio manager faces charges in a substantial insider trading case.

The Securities and Exchange Commission (SEC) alleges that Mathew Martoma was able to net $276m for his company after trading non-public information gained in a meeting with Dr. Sidney Gilman, a neurology professor who also faces charges.

And Sandy Bragg, CEO of Integrity Research Associates, a New York firm closely tracking expert networks, says if conversations such as the one between Gilman and Martoma – organised by Gerson Lehrman Group (GLG) – were recorded, it would help the industry avoid such cases.

"GLG has the best compliance procedures of any expert network but you could have a situation here where a client waltzed straight through," he said. "If these calls were recorded you would know for sure and reduce future doubt."

He added that although firms including GLG offer a recording service, hedge funds are worried that information received by their staff in such conversations could be "misconstrued by an over-zealous prosecutor".

SAC, Steve Cohen's huge US hedge fund firm, could face charges in the case after telling investors last week that it had received a Wells notice from the SEC.

GLG has not been accused of wrongdoing.

■ w.wainewright@hfmweek.com

CONTINUED FROM PAGE 1

of the market which has seen several firms, most notably SkyBridge Capital, score impressive retail inflows to RIC-compliant offerings.

"It has been challenging for many FoHFs but they are still a very important part of the market," she added, demonstrating sentiment that will be welcomed by a sector that has been criticised in recent years following Madoff exposures, drab performance and encroachment from investment consultants.

Four of the top 20 firms lost a fifth or more of FoHF business over the past six months, with SS&C GlobeOp (-20%), HSBC (-34%), J.P. Morgan (-29%) and Banque Privee E. De Rothschild (-41%) together losing more than $40bn.

Austrian bank Erste Group has become the latest organisation to make cutbacks, revealed on *HFMWeek.com* last week, to its once-$1bn+ FoHF and seeding operation (see page 6). While this was partly triggered by wider eurozone losses, several FoHFs have closed their doors this year amid investor redemptions and weak performance, with the average fund advancing just 2.95% in 2012's first ten months.

Turn to page 19 for the full rundown of FoHF results in *HFMWeek's* 19th AuA survey.

■ w.wainewright@hfmweek.com

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AWARDS

Husband and wife duo win HFM Asia award

THE HUSBAND-AND-WIFE team behind HT Capital Management, the Hong Kong-based emerging markets specialist, was honoured with an outstanding contribution award at *HFMWeek's* inaugural Asia Awards last week.

Karl Hurst and Ophelia Tong, who run the $450m firm, received their award in front of more than 250 peers at the Island Shangri-La, Hong Kong.

The Asian units of several US heavyweights did well, with Fortress winning Management Firm of the Year for its Capital Formation company, and the global macro category for its Asia fund.

The broader FoHF Specialist category was won by the Penjing Asia Market Independent Fund, run by the firm bought out by Gottex, a Swiss FoHF, earlier this year. Other homegrown winners included Double Haven Capital, which won the credit category, and Ginga Service Sector Fund, named best Japanese long/short equity fund.

The HT Asian Alpha Amoeba Fund was victorious in Long/Short Equity (Asia ex-Japan) over $100m category.

■ w.wainewright@hfmweek.com

MARKET MONITOR

BENCHMARKS

INDEX PERFORMANCE 30 Oct – 30 Nov (%)

FTSE 100 NASDAQ S&P500 HFR INDEX

HIGHS&LOWS

OCTOBER 2012 RETURNS Source: BarclayHedge

HIGH

HEDGE FUNDS	FoHFs
Accretive Capital Partners LLC	Green Way Select Asian L/S Equity
18.10%	18.78%

LOW

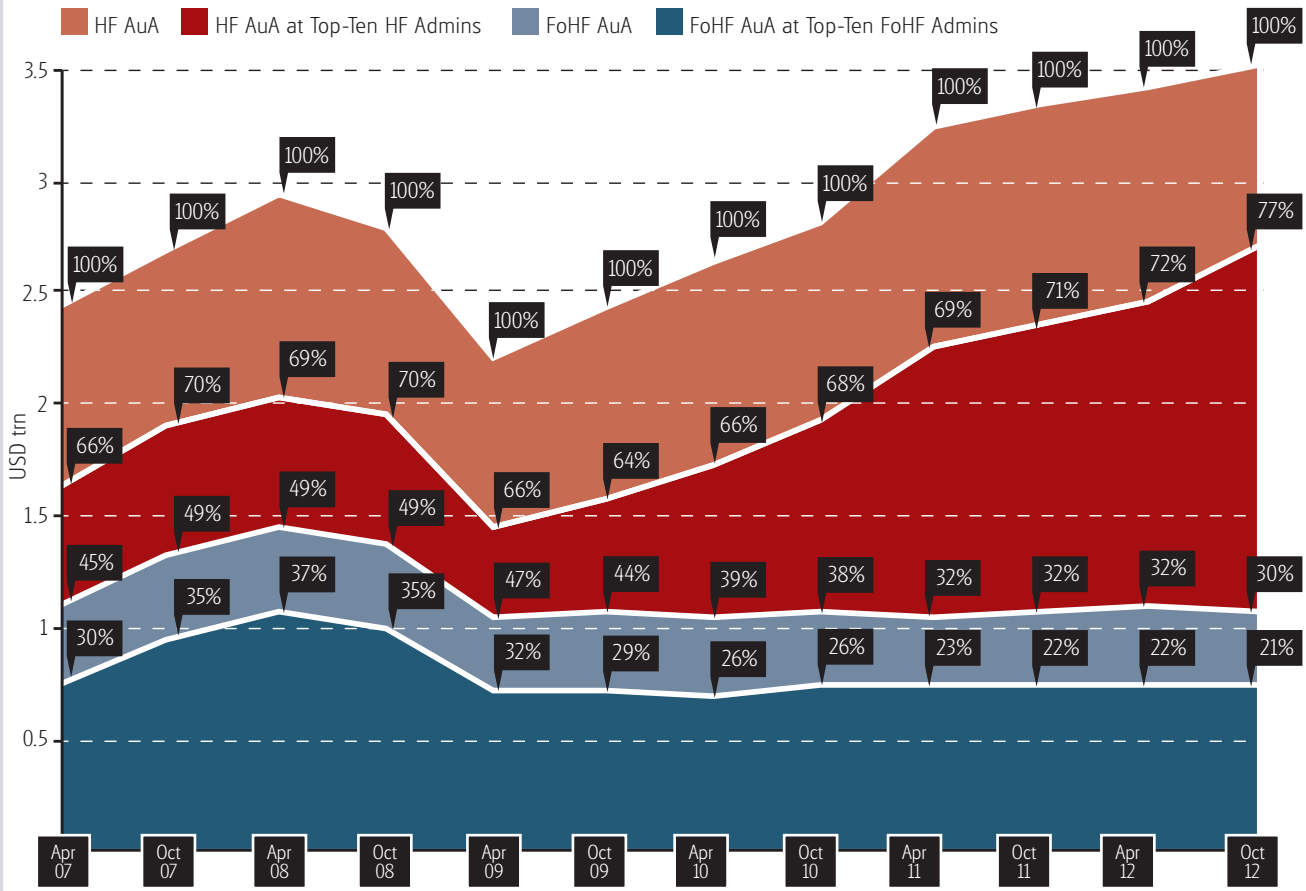
HEDGE FUNDS	FoHFs
Lowest performer: Asia Synthetic Warrant Fund	Focus Special Opp Ltd
-14.59%	-7.89%

PAGE 4 INSIGHT

AUA AT A GLANCE

HISTORICAL DATA FROM *HFMWEEK*'S ASSETS UNDER ADMINISTRATION SURVEYS OFFER A SNAPSHOT OF INDUSTRY TRENDS

SOURCE: HFMWEEK

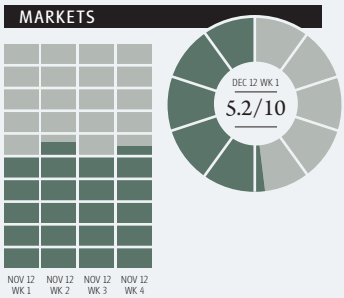


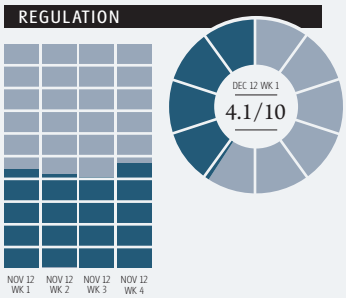
If *HFMWeek's* latest survey of the administration space can be summarised in two trends it would that the big have got bigger as fund of hedge funds (FoHF) assets have shrunk. The top-line figures of course are the slight advance for single manager assets under administration and the slight decrease for the FoHF equivalent. But put into a historical context and it is the industry's constituent proportions that offer the more revealing statistics. The top ten administrators – buoyed by six months of headline-grabbing M&A – have seen their biggest gain so far. While FoHF percentages, both overall and at the top ten, have recorded fresh declines following a period of stagnation.

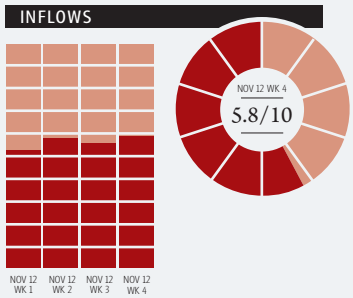
CONFIDENCE INDEX

WEEK 1 – DEC 2012

Each week, *HFMWeek*'s online poll invites managers, service providers and investors to rate their confidence in the industry out of ten. To participate, visit **www.hfmweek.com**







LAUNCH

Ex-SAC manager to re-launch Electron flagship in Q1 2013

Jos Shaver hires Electron veterans Greg Zaffiro and Aaron Keller

FORMER SAC CAPITAL Advisors portfolio manager Jos Shaver, who left the troubled hedge fund giant earlier this year with plans to re-launch the venture he closed in 2008, is aiming to debut his Electron Capital Partners flagship in the first quarter of 2013 and has made two new senior hires in anticipation, *HFMWeek* can exclusively reveal.

Reports from earlier this year revealed Shaver, who left SAC in April, was preparing to re-launch Electron Capital Partners after running predecessor firm Electron Capital Management from 2005 to 2008.

According to a source familiar with Shaver's plans, the maiden portfolio is called the Electron Global Fund, a global utilities and infrastructure long/short equity strategy, which will operate in a master/feeder structure. Holding between 70 and 100 positions, it will start targeting investors in the first quarter and has a capacity of $2.5bn.

His New York-based firm has also recently hired Greg Zaffiro as managing director and head of marketing /investor relations, and Aaron Keller as CFO.

Before joining Electron in November, Zaffiro was most recently director of marketing and business development for Platinum Partners. Keller joined Electron in October from Kingsbrook Partners, where he was also CFO.

Zaffiro, Keller and Shaver all previously worked together at Electron Capital Management – which peaked with $450m in AuM – and before that at Intrepid Capital Management.

■ e.margulies@hfmweek.com

READER SURVEY

THE UN PRINCIPLES FOR RESPONSIBLE INVESTING INITIATIVE HAS UNVEILED ITS FIRST HEDGE FUND PAPER. HOW MUCH PRESSURE WILL INVESTORS EXERT ON THE INDUSTRY TO ADDRESS STANDARDS OF RESPONSIBLE INVESTING IN 2013?

- Significant – It's a hot topic **21.4%**
- Fair – The impact on managers will be moderate at best **28.6%**
- Little – Investors will be too busy with other priorities to give it serious attention **50.0%**

HFMWeek readers are yet to be convinced that the drive for ethical investing will translate into pressure from investors, despite last month's debut of the first hedge fund paper from the UN Principles for Responsible Investing. Half of respondents thought most investors would have more pressing priorities next year, while the remainder thought there would at least be a fair amount of attention in future.

PERFORMANCE

November turnaround for Loeb's Third Point

DAN LOEB'S THIRD POINT turned its November around during a strong seven days that saw two of the New York firm's biggest funds bounce back into positive MTD territory and catapulting one into a well-known hedge fund rankings yearly top ten.

Event driven funds Third Point Offshore and Third Point Ultra had found it tough going in the first half of last month, returning -0.7% and -0.8% through 14 November respectively, investor documents seen by *HFMWeek* had showed.

However, momentum shifted in the seven days that followed, with Offshore, roughly $8bn Third Point's $4.9bn flagship, gaining 2.5 percentage points, and $1.3bn Ultra advancing 3.5 percentage points.

The gains took the offerings back into HSBC Private Bank's best performing funds MTD, with Offshore on 1.8% and Ultra on 2.7%.

The YTD performances of the two funds are now also among the year's best, on 16.12% and 25.38% respectively, with the gains of the latter propelling it into 10th place in HSBC's 2012 list, having been outside the top-20 the previous week.

Elsewhere, one of the hedge fund industry's best performers of the past three years, Chenavari Investment Managers' Toro Capital fund, has worked its way into the top 20 following a 3.76% October gain. The roughly $230m distressed credit fund has made gains of 24.26% YTD.

■ t.griffiths@hfmweek.com

ONGOING SUCCESS

CURRENTLY RANKED 13TH IN THE HSBC top 20, Chenavari Toro Capital finished 2011 in 6th place with 24.71% and in first place in 2010 with more than 90%. The fund also returned over 80% in 2009 since its inception in May of that year and now boasts an annualised return of 62.97%: the biggest on HSBC's entire list

The 2012 rankings are still led by BTG Pactual Distressed Mortgage Fund, which is up nearly 40% through 31 October, over six percentage points above its nearest rival, Tilden Park Offshore Investment Fund.

HANDLE WITH CARE: *HFMWEEK* EXAMINES RESPONSIBLE INVESTING

NEWS ANALYSIS P17

INDICES

NOVEMBER 2012

BARCLAYHEDGE
HEDGE FUND INDEX

ESTIMATED PERFORMANCE THROUGH AUGUST 2012 (AS OF 4 DEC 2012)

HEDGE FUNDS	1.07% ▲
FUNDS OF HEDGE FUNDS	0.66% ▲
CONVERTIBLE ARBITRAGE	1.45% ▲
FIXED INCOME ARBITRAGE	0.99% ▲
EMERGING MARKETS	0.37% ▲
EQUITY LONG BIAS	1.89% ▲
EQUITY LONG/SHORT	0.53% ▲
EQUITY MKT NTRL	1.37% ▲
GLOBAL MACRO	-0.69% ▼
EVENT DRIVEN	0.49% ▲
MULTI STRATEGY	0.81% ▲

PEOPLE MOVES

Bo Kratz, a former Asia chief at fund of hedge funds giant **Permal**, has joined **Northern Trust**, becoming a managing director for asset management in the Asia-Pacific region.

Emerging markets specialist **Insparo Asset Management** has hired **Glenda Levin** as head of marketing. She joins the London-based firm from **Equitable Life**.

Bandon Capital Management, a Portland-based alternative mutual fund firm, has recruited **Terry Swenson** as a senior distribution executive. He arrives after a decade with **Van Kampen/Morgan Stanley Asset Management**.

London-based **RiverRock European Capital Partners**, a provider of debt and equity capital to SMEs, has hired ex-head of **Bear Sterns International** as its joint-CEO. **Michel Péretié** is also a former **Société Générale** senior executive.

Russell Investments has added **Adam Smears** and **Kevin Dockrell** to its fixed income team. Smears will head the division's research section, while Dockrell arrives as an analyst.

PEOPLE MOVES
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FOHF

Erste slashes alternatives following eurozone troubles

Austrian bank's FoHF unit latest to succumb to wider pressures

AUSTRIA'S ERSTE GROUP, once a multi-billion-dollar fund of hedge funds (FoHF) player and well-regarded seeder, has made significant cutbacks to its alternatives operation in the wake of losses connected to the eurozone debt crisis.

The Vienna-based group, one of Central Europe's biggest lenders, is the latest firm to reduce its presence in the FoHF space, after suffering a $1bn loss stemming from the government debt crisis and mortgage troubles in Hungary last year.

A spokesperson told *HFMWeek* that Erste's FoHF portfolio was being "cut back as part of the strategy to scale down non-core business" but denied it was exiting alternatives entirely.

The FoHF and seeding operation is now being run by Mark Cachia in Vienna, with some portfolio management support.

Erste's appearance in *HFMWeek's* survey of the seeding space in 2011 revealed it had $85m invested with six seeded hedge funds, but equivalent figures could not be obtained this year. The same goes for its FoHF unit, which is believed to be running less than $1bn.

HFMWeek reported in October on London-based Tarchon Capital's decision to shutter its once-$3bn operation after 14 years, with smaller FoHFs across Europe and the US struggling to gain traction. The average FoHF advanced just 2.95% during the first ten months of the year according to Hedge Fund Research and a wave of consolidation has seen FoHFs bought up by larger firms.

■ w.wainewright@hfmweek.com
■ k.brewer@hfmweek.com

EUROZONE CASUALTY

"OUR HOPES THAT WE WILL SEE A solution to the sovereign debt crisis in Europe in the near future have decreased considerably over the last couple of weeks," CEO Andreas Treichl said in the wake of last year's losses. "We have, therefore, taken radical action to prepare Erste Group for a prolonged period of uncertainty."

THE WEEK

HFMWeek's latest US Subscriber Breakfast, held last Thursday in New York, saw speakers broach the topic of Administration for the New Institutional Investor, noting that allocators often don't have the systems required to make use of the position-level data they receive. The panel – (L-R) Peter Sanchez, CEO of event sponsor Northern Trust Hedge Fund Services, Whitebox Advisors president Jonathan Wood, and Maarten Nederlof, head of portfolio solutions at Paamco – said managers also need to ensure they have consistent securities reporting.

STRATEGY

Harding defends science shift into fund arena

DAVID HARDING, FOUNDER of research-driven hedge fund giant Winton Capital, backed more scientists to ply their trade in sectors such as fund management, so that the wider economic community could benefit from the academic world's best minds.

Speaking at last week's London-based Royal Society Winton Prize for Science Books – won by James Gleick's *The Information* – Harding admitted to seeing criticism of academics selling their skills outside pure scientific pursuits, but said such expansion could boost both science and the sectors into which its patrons venture.

Harding also acknowledged that it had been a "disappointing" year for his roughly $27bn quantitative manager. As of 26 November, the firm's $6.8bn Futures Fund was down about 5.6% YTD and its $100m Evolution Fund down roughly 10%.

■ t.griffiths@hfmweek.com

INDICES

OCT 2012

ABSOLUTE RETURN INDICES

SOURCE: Newedge Prime Brokerage Group

VOLATILITY TRADING INDEX	
OCT 2012 EST	0.55% ▲
YTD 2012 EST	4.57% ▲

COMMODITY TRADING INDEX	
OCT 2012 EST	-2.01% ▼
YTD 2012 EST	-0.09% ▼

SUB-INDICES	
EQUITY STRATEGIES	
OCT 12	-1.43%
YTD	-0.92%
TRADING STRATEGIES	
OCT 12	-2.07%
YTD	-0.55%

MACRO TRADING INDEX	
OCT 2012 EST	-1.12% ▼
YTD 2012 EST	-0.47% ▼

SUB-INDICES	
QUANTITATIVE	
OCT 12	-1.77%
YTD	-0.84%
DISCRETIONARY	
OCT 12	-0.62%
YTD	-0.15%

PEOPLE MOVES

Zimmer Lucas duo embark on separate ventures

Pair launch individual firms after 15 years together

THE PAIR BEHIND ZIMMER Lucas Capital, a utilities-focused long/short equity firm based in New York, are embarking on separate ventures after jointly racking up a 15-year track record of bumper returns, *HFMWeek* can reveal.

The firm's flagship utilities fund, which has scored annualised returns of 23% since 1997, will open up to external money next quarter in a project led by Stuart Zimmer. The project will see management of the fund transferred to Zimmer Partners, his newly created firm.

Craig Lucas, Zimmer's long-time partner, has launched his own firm, Nexus Asset Management, which will act as a multi-strategy platform for funds trading in the energy space.

It has already made its first allocation, funding a new London energy-focused long/short equity firm named Covalis Capital, which is currently being prepped for launch by Zach Mecelis, who spent five years as a portfolio manager at GLG.

Zimmer Lucas itself is in "wind-down mode," according to a source, but the pair will continue to run their new companies out of the firm's Midtown office located in premises built as the home of Philip Lehman, the former head of Lehman Brothers.

Despite its stellar track record, the firm has hitherto insisted on guarding its small size, in capital and staff terms, and Zimmer has always been the sole portfolio manager with Lucas having joint sign-off. It has kept external commitments to a minimum.

Its choice to restrict portfolio management status meant it became renowned as something of a feeder firm, with a lot of analysts moving into senior roles at bigger players including Millennium Management.

The source said the fund, which is expected to receive high investor interest when it opens externally, will have a $1bn capacity but probably aim initially to reach between $500m-$750m.

The Beaux-Arts mansion hit the headlines earlier this year when it was put on the market at a New York office record price of almost $4,000 per square foot, but the pair will continue running their operations from there "for the moment," said the source.

■ w.wainewright@hfmweek.com

THE WEEK

The Chartered Alternative Investment Analyst (CAIA) Association, celebrated its tenth anniversary at an awards dinner in New York last week. The event, attended by over 200 academics and guests, also saw the First Annual Award for Academic Excellence and Alternative Investment Research presented to Thomas R. Schneeweis (centre, flanked by Mark J.P. Anson, CIO at Oak Hill Investment Management, and Florence Lombard, CAIA CEO), a founding board member of CAIA and a professor at the University of Massachusetts.

HFMWEEK'S 19TH AUA SURVEY: PART 2 FUNDS OF HEDGE FUNDS
FEATURE P19

CONTINUES ON P13

SEARCH ACTIVITY

COLORADO FIRE & POLICE PENSION ASSOCIATION

TOTAL AuM $3.2bn
CONSULTANT Albourne
ACTIVITY Considering managed futures for first time

NEW MEXICO PUBLIC EMPLOYEES' RETIREMENT ASSOC

TOTAL AuM $11.9bn
CONSULTANT Cliffwater Associates
ACTIVITY Creating 5% ($595m) liquid alpha bucket

UNIVERSITY OF CALIFORNIA – GEP AND UCRP

TOTAL AuM $47.6bn (GEP $6.5bn/UCRP $41bn)
CONSULTANT Mercer
ACTIVITY $77.5m made open to managed futures funds

SCIENS ALTERNATIVE INVESTMENTS

TOTAL AuM $1bn
CONSULTANT n/a (FoHF)
ACTIVITY Looking at structured & corporate credit and capital structure arbitrage; particularly in EM

INVESTOR IN BRIEF

Chicago Public School Teachers' Pension and Retirement Fund is to terminate its $149.2m mandate with **K2 Advisors** and **Mesirow Advanced Strategies**. This could lead to the $9.7bn pension fund exiting hedge funds entirely because of a need for liquidity to pay benefits. **Pluscios Management** will be the fund's sole FoHF manager.

Investor confidence in the French economy appeared to rise in October as the net notional value of credit default swaps (CDS) covering the country, contracts taken out as protection against sovereign default, dropped by more than 7% in the four weeks to 23 November. The EU powerhouse also saw a weekly drop (-1.63%), as did a number of other countries in the **Depository Trust & Clearing Corporation**'s latest op-15 of sovereign CDS contracts by total value.

US long/short equity manager **Sanborn Kilcollin Partners**, based in Chicago, has hired **Ken Sorenson**, formerly of **Hovde Capital Advisors**, as its first investor relations director. Sorenson will be responsible for marketing and investor relations activities for the firm, and will report to co-founder T. Eric Kilcollin.

GOVERNANCE

Demand for ethical strategies prompts Man spin-out talks

Firm considers long/short 'natural selection' fund

MAN GLG, ONE OF THE FEW hedge fund firms to have signed up to the UN Principles for Responsible Investment (PRI), is considering spinning out a long/short 'natural selection' strategy, amid growing investor demand for hedge funds employing 'sustainability' strategies.

Strong signals of intent are coming from an array of European investors, but Dutch and Scandinavian institutions in particular, Jason Mitchell, manager of the Global Sustainability Equity Fund at Man Group's GLG Partners subsidiary, told *HFMWeek*.

GLG has a long/short 'natural selection' strategy, currently being run as a part of a European long/short Ucits IV fund where it is testing thematic and ESG overlays. Talks of spinning it out in 2013 have been held and investors are keen, though no firm plans have been made.

Reaction to the PRI initiative – which last month published its first hedge fund paper – was mixed among *HFMWeek* interviewees, with acknowledgement of its noble endeavours going hand-in-hand with concerns about practicality and priority.

One manager questioned whether a single PRI policy could be applied to large multi-strategy asset managers, such as publicly listed firms like Man Group, Fortress and Och Ziff. How to address and reconcile differing interpretations and applications of PRI is something Man is currently debating, Mitchell confirmed.

Stephen Kennedy, head of Albourne's ESG project and member of the PRI working group, said signing up "doesn't necessarily have to be an onerous undertaking – it is potentially quite powerful from a returns point of view and a risk mitigation standpoint."

See page 16 for more.

■ k.brewer@hfmweek.com

GOVERNANCE

US panellists warn of information overload

DESPITE THE INCREASED emphasis on transparency over the past few years resulting in a demanding investor community and the emergence of transparent fund structures, a trio of panellists have argued that both allocators and managers still do not have the resources to analyse the influx of detailed information.

Maarten Nederlof, head of portfolio solutions at fund of hedge funds Paamco, said problems might arise when pension clients ask to see every trade, especially from multi-strategy managers.

"Transparency is a nice thing to ask for, but what are you going to do with it?" he asked, speaking as part of a three-man panel at *HFMWeek's* latest US subscriber breakfast in New York last week.

"You have to be careful what you ask for, because you might get it."

Jonathan Wood, president at hedge fund manager Whitebox Advisors, added that hedge funds have more work to do.

"There is an evolution going on in this industry to bring some new tools that help inform your clients, but there are also some dangers in doing that until there is some real consistency in reporting," he said.

■ e.margulies@hfmweek.com

ALLOCATION

Winton Capital to run $30m for West Virginia

THE $12.9BN WEST VIRGINIA Investment Management Board (WVIMB) has hired Winton Capital Management, amid strong appetite from institutional investors for managed futures funds.

The Winton Futures Fund will run $30m for WVIMB, which manages pension, insurance and endowment assets across 22 state plans, upping the total of hedge funds in the $1bn portfolio to 28. London-based Winton's fund carries monthly liquidity terms, with three days prior written notice.

The number of institutional investors active in the CTA space has more than doubled since 2008, according to Preqin research. There are now 713 institutional investors in the space, compared to 331 in 2008, according to the research, which reveals that 42% of funds of hedge funds (FoHFs) are now allocators to CTA funds, and a quarter of public pension funds have a preference for the space.

The Winton Futures Fund is down 6.63% year to 23 November, according to documents seen by *HFMWeek* for investors at HSBC Private Bank, while the Barclays CTA index is down 1.39% for October and -1.56% YTD. However, such lacklustre performance has not abated investors, with 14% of searches initiated in the month including a managed future mandate, according to Preqin.

■ k.brewer@hfmweek.com

THE FUTURE IS FUTURES

WVIMB is among a number of US institutions to show appetite for managed futures. In November, *HFMWeek* reported that the $71.6bn University of California is to allow up to three quarters of a billion to be open to managed futures hedge funds. Meanwhile the $3.2bn Colorado Fire & Police Pension Association is mulling a foray into the space, as is the Kern County Employees' Retirement Association.

LAUNCH ACTIVITY

ELECTRON CAPITAL PARTNERS
NAME Electron Global Fund
STRATEGY Global utilities and infrastructure long/short equity strategy
LAUNCH DATE Q1 2013

QUANT TRADING
NAME FX Index Arb Currency Trading Programme
STRATEGY Systematic; trades currencies in the cash markets
LAUNCH DATE Q4 2012

LW INVESTMENT MANAGEMENT
NAME LW Latin America Fixed Income Opportunities Fund
STRATEGY Fixed income
LAUNCH DATE Q4 2012

GORELICK BROTHERS CAPITAL/WILSHIRE ASSOCIATES
NAME Morrocroft Alternative Fixed-Income
STRATEGY Fund of managed accounts
LAUNCH DATE Q1 2013

METRONOME CAPITAL
NAME Metronome Fund
STRATEGY Long/short equity
LAUNCH DATE January, 2013

LAUNCH

Macedonian quant manager unveils fourth strategy

Currency trading program run by local university professor

QUANT TRADING, A Macedonia-based firm that manages quantitative programs overseen by a local university professor, has rolled out its fourth offering.

The portfolio, called the FX Index Arb Currency Trading Program, which debuted in September and has no management fee, is a systematic strategy that trades currencies in the cash markets, according to data provided to BarclayHedge. It creates a complex portfolio of ten global (G10) currencies.

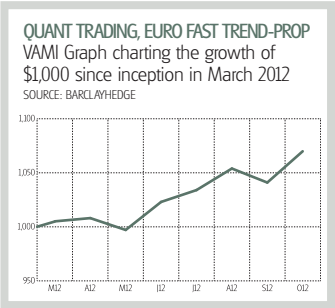
Dejan Trajkovski, portfolio manager, told *HFMWeek* that the FX strategy debuted with internal capital and ultimately has a capacity of $1bn.

In addition to Quant Trading, which utilises separately managed account (SMA) proprietary programmes, Trajkovski is a professor at the Faculty of Technical Sciences in Bitola, Macedonia. He has been employed there since 1995, first as assistant professor until 2000, then associate professor from 2000 through 2005, at which time he was appointed professor.

The FX Index Arb Currency Trading Program has a $1m investment minimum, 0/20 fees and no lockup. Interactive Brokers is the prime broker.

According to BarclayHedge, the program has returned 1.3% since it began trading in September. Few investment managers are based in Macedonia, a former Yugoslav republic located in the central Balkan peninsula in southeast Europe.

■ e.margulies@hfmweek.com



THE WEEK

Regulatory burdens and market overcrowding were identified as among the key challenges facing hedge fund traders by a panel of industry experts at an event in London last month. The latest *HFMWeek* UK subscribers breakfast briefing was moderated by Tony Glickman, a senior vice-president at event sponsor Northern Trust, with a panel comprising: (pictured from left to right) Abigail Bell, a senior associate at Dechert, Penny Aitken, partner and investment manager at FQS Capital, and Oleg Ruban, a vice president at MSCI.

LAUNCH

Second fixed income fund from Miami firm

LW INVESTMENT Management, an emerging markets-focused hedge fund manager, has launched its second fixed income fund, *HFMWeek* has learned.

The LW Latin America Fixed Income Opportunities Fund has launched with $2.5m of partner money and is initially looking to magnetise investment from family offices in LatAm and Switzerland, as well as certain US and LatAm institutions, Carlos Zalles, CIO, told *HFMWeek*, adding the firm is in discussions with one anchor investor.

"The objective is to provide capital appreciation with an emphasis on absolute positive returns," the Miami-headquartered firm's marketing materials state.

The new fund, administered by Amicorp, has a minimum initial investment of $50,000 and a 1.5/15 fee structure, with monthly liquidity and no lock up.

■ k.brewer@hfmweek.com

LAUNCHES & CLOSURES IN BRIEF

Gramercy Advisors has launched a distressed credit fund. The US firm, which runs over $3bn, has received $200m in commitments for the **Gramercy Distressed Opportunity Fund II**.

Deutsche Bank's **db-X Funds** structured funds division has launched the **CROCI US Dividends Fund**, a portfolio to give investors US dividend-focused exposure, via its Platinum platform.

BlackRock Alternative Investors is to launch a European infrastructure debt investment arm, having hired **Philippe Benaroya**, **Chris Wrenn** and **Gilles Lengaigne** from **Blackstone/GSO** to head up the London-based unit.

Swedish firm **Coeli AB** has added a second fund to **Deutsche Bank**'s **dbSelect** liquid hedge fund platform. **Coeli Spektrum** is a systematic CTA managed futures fund, which manages $110m.

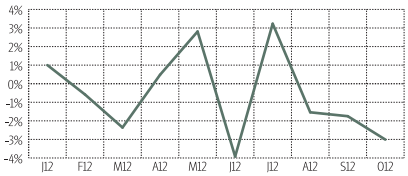
A hedge fund seeking to profit from rejuvenating late-night bars in the UK has been launched by Cayman-registered **EMCO Capital Advisers**. The **EMCO Alternative Property Fund** will invest in at least six venues in England and Wales.

BY STRATEGY & SECTOR

MANAGED FUTURES//

HFRX SYSTEMATIC DIVERSIFIED CTA INDEX

Jan 12 - Oct 12 monthly returns (%)



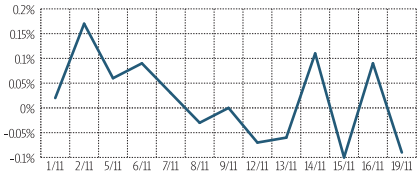
SOURCE: Hedge Fund Research

The sound of sliding bolts is an investor's worst nightmare. The return of the gate could symbolise the end of 2012 and the start of 2013. Any decision to tie in investor capital would hardly be a surprise given the difficult year experienced by most hedge fund strategies in 2012. A lot of the trouble lies at the feet of managed futures funds. The strategy endured torrid month after torrid month and November was heading the same way for many. Others, like CCP Quantitative Fund and the Crabel Fund, returned 2.3% and 4.55% respectively through 16 November.

CREDIT//

HFRX FIXED INCOME CREDIT INDEX

Nov 12 daily returns (%)



SOURCE: Hedge Fund Research

November was proving to be a slow month for global credit managers. Some managed to eke out a basis point here and there; other funds' performance went the other way, although nothing remotely catastrophic. Saba Capital and JPS Credit Opportunities Fund were very much flat through the first two weeks of November. The latter's YTD performance remains strong, up 9.84%. Saba Capital isn't fairing as well, down 1.5% YTD. The Mariner-Tricadia Credit Strategies Fund was similarly flat through 15 November. And like the JPS Credit Opportunities fund was close to 10% returns YTD.

ASIA EQUITIES//

HFRX ASIA EX-JAPAN INDEX

Jan 12 - Oct 12 monthly returns (%)

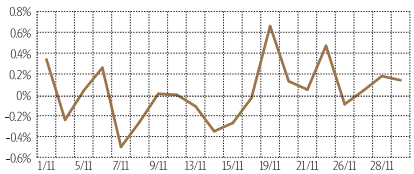
SOURCE: Hedge Fund Research

Equities managers weren't showing as steady a touch as their credit manager peers in November. Managers with an Asian equities persuasion slipped back in the first half of the month. Pinpoint China fund slipped 0.9% through 16 November leaving it up 3.9% YTD. The Real Return Asia fund also fell back, giving up 1.1% through 16 November, leaving it up 3.9% as well. The Nezu Cyclicals fund actually made up some ground returning 0.94% through 16 November, although its YTD position was a little more precarious, down 4.9%.

EUROPEAN EQUITIES//

HFRX EQUITY HEDGE INDEX

Nov 12 daily returns (%)



SOURCE: Hedge Fund Research

European Equities funds were fighting hard to keep their heads above water in November, and not all managed to do so. Heavy reversals were in evidence at the Landsdown Euro Equity Fund, which dropped 2.35% through 16 November and was only just positive for the year. Odey European was another fund that stuttered through the first half of November. It fell 1.2% through 14 November, although it was still up 21.8% YTD. Rhine Alpha kept its form through 16 November, returning 1.1% in the month and helping it to a 26.7% YTD performance.

THE SHORT VIEW

WILL WAINEWRIGHT
k.brewer@hfmweek.com

Expert networks back in the spotlight

EXPERT NETWORKS ARE AGAIN in the spotlight, and this time it could prove fatal. The SEC has ex-SAC Capital Advisors trader Mathew Martoma and Dr. Sidney Gilman, a neurology professor paid to provide expert evidence, in its crosshairs as it presses charges over a huge alleged insider trading scheme, but the industry that paired them is braced for impact.

Not for the first time. The Galleon conviction last year dragged expert network firm Primary Global over the coals, bringing widespread attention to an industry offering hedge funds expensive access to industry experts. The debate on how easily the system could result in insider trading mushroomed.

The tale is familiar, but the scale is new. Gerson Lehrman Group (GLG) is the largest provider of expert networking services. It is regarded as having the most rigorous compliance procedures in place. Indeed, Sandy Bragg of Integrity Research Associates, a New York firm tracking the sector, says increasingly high compliance hurdles are one reason expert network usage has declined. "Internal paperwork made it punishingly time-consuming for many analysts and PMs," he says.

Nonetheless, the sector faces its biggest test after its biggest firm (GLG has not been accused of wrongdoing) set up the fateful meeting. One question remains: why not record all conversations organised through expert networks? "It is the elephant in the room," continues Bragg, who advocates the practice. "It is the best solution, but hedge funds are concerned that those conversations could be distorted or misconstrued by an over-zealous prosecutor." It is an attitude that may have to change for the industry to survive its latest turn in the spotlight. ■

THE WEEK IN NUMBERS

$2.2bn
Amount committed by Pershing Square investors for firm's new listed venture

45yrs
GLG strategy chief makes a somewhat bearish predication for Europe's economic recovery

187
Reports note a record number – and proportion – of quant launches last year

9.8%
Final week in November sees hedge funds increase bullish commodities bets

$587.5m
Record US powerball lottery jackpot claimed by a Missouri couple and an unnamed winner

3-1
LA Galaxy retain MLS Cup in David Beckham's last game for the club

SEARCH ACTIVITY

A WEEKLY COMPENDIUM OF RECENT HEDGE FUND SEARCHES AND INVESTMENT MANDATES

Compiled by HFMWeek

NOV 2012

COLORADO FIRE & POLICE PENSION ASSOCIATION
TOTAL AUM $3.2bn
CONSULTANT Albourne
ACTIVITY Considering managed futures for first time

NEW MEXICO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
TOTAL AUM $11.9bn
CONSULTANT Cliffwater Associates
ACTIVITY Creating new 5% ($595m) liquid alpha bucket for hedge funds and hedge fund-type vehicles

UNIVERSITY OF CALIFORNIA - ENDOWMENT POOL (GEP) AND PENSION FUND (UCRP)
TOTAL AUM $47.6bn (GEP $6.5bn/UCRP $41bn)
CONSULTANT Mercer Investment Consulting
ACTIVITY Changed investment policy to allow $77.5m to be open to managed futures hedge funds within real assets portfolio

SCIENS ALTERNATIVE INVESTMENTS
TOTAL AUM $1bn
CONSULTANT n/a (FoHF)
ACTIVITY Looking at structured & corporate credit and capital structure arbitrage; particularly in EM

OCT 2012

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (KCERA)
TOTAL AUM $2.8bn
CONSULTANT Albourne
ACTIVITY Mulling adding up to $170m in HFs to commodities; EM equities; and EM debt buckets. Also building $280m direct HF portfolio

OKLAHOMA POLICE PENSION & RETIREMENT SYSTEM
TOTAL AUM $1.8bn
CONSULTANT Asset Consulting Group
ACTIVITY Issuing $76m mandate between up to 15 long/short equity managers

FAUCHIER PARTNERS
TOTAL AUM $6.2bn
CONSULTANT n/a
ACTIVITY Adding sector specialists in equity long/short; e.g healthcare and technology

KINSHIP TRUST COMPANY
TOTAL AUM Several billion
CONSULTANT n/a
ACTIVITY Interested in hedge funds in the energy sector

AUG 2012

SACRAMENTO COUNTY EMPLOYEES' RETIREMENT SYSTEM
TOTAL AUM $6.3bn
CONSULTANT Cliffwater Associates
ACTIVITY Looking at long/short equity, global macro, market neutral and/or relative value

NEW MEXICO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
TOTAL AUM $11.3bn
CONSULTANT Cliffwater Associates
ACTIVITY Searching for long/short equity manager

HARCOURT INVESTMENT CONSULTING
TOTAL AUM $3.8bn
CONSULTANT n/a
ACTIVITY Looking to add mortgage backed securities hedge funds

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (KCERA)
TOTAL AUM $2.8bn
CONSULTANT Albourne
ACTIVITY Direct with up to $300m to allocate

JULY 2012

LONDON BOROUGH OF CAMDEN PENSION
TOTAL AUM $1.56bn
CONSULTANT Hymans Robertson
ACTIVITY Doubling allocation to hedge funds (10%); $80m open to new investment

TRANSPORT FOR LONDON
TOTAL AUM $94bn
CONSULTANT Towers Watson
ACTIVITY Allocating up to $220m to long/short, event driven, discretionary global macro, multi strat

LOS ANGELES WATER AND POWER RETIREMENT PLAN
TOTAL AUM $7.4bn
CONSULTANT Pension Consulting Alliance
ACTIVITY Looking to issue at least $90m across two managed accounts

AP FONDEN 1
TOTAL AUM $31.5bn
ACTIVITY Searching in managed futures hedge fund space

CITY OF NORWALK MUNICIPAL EMPLOYEES PENSION BOARD
TOTAL AUM $339m
CONSULTANT Callan Associates
ACTIVITY Looking at absolute return FoHFs to fill 4% absolute return portfolio

JUNE 2012

SAN ANTONIO FIRE & POLICE RETIREE HEALTHCARE FUND
TOTAL AUM $210m
CONSULTANT Fund Evaluation Group
ACTIVITY Searching for multi-strategy hedge funds

LEICESTERSHIRE COUNTY COUNCIL
TOTAL AUM $3.4bn
CONSULTANT Hymans Robertson
ACTIVITY Searching for managed futures manager for $124m mandate

TEXAS TEACHERS RETIREMENT SYSTEM
TOTAL AUM $109bn
ACTIVITY Looking to add two or three equity long/short managers and possibly event driven by end of 2012

LONDON BOROUGH OF WALTHAM FOREST
TOTAL AUM $826.7m
CONSULTANT Mercer
ACTIVITY 5% ($39m) allocation to HFs

UNIVERSITY OF CALIFORNIA
TOTAL AUM $41bn
ACTIVITY Searching for a long/short equity manager, European distressed manager and EM manager

AMERICAN LEGACY FOUNDATION
TOTAL AUM $1bn
CONSULTANT LV Advisors
ACTIVITY Looking at structured credit and long/short emerging markets

HERMES BPK AND NORTHERN LIGHTS CAPITAL
TOTAL AUM $2.3bn / $11bn
ACTIVITY Seeding platform will allocate around $75m to 3-4 early stage managers per year for three years

ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
TOTAL AUM $4.7bn
CONSULTANT Callan Associates
ACTIVITY Looking to make initial $100m FoHF hire

THE LONG VIEW

WILLIAM KEUNEN
looks back at how the hedge fund industry reacted to the events of 2012

"A MATURING INDUSTRY HAS ADJUSTED TO THE NEW WORLD WITH SURPRISING REALISM"

Now that the US holiday Thanksgiving is behind us and we are firmly into the hysteria of the year-end cycle, I would like to offer some thoughts on what went down during 2012.

SETTING PERFORMANCE EXPECTATIONS

After disappointing in 2011, many hedge funds have performed reasonably well. Citco's Fund Services overall client performance index is hovering at around the 6% mark YTD, with some notable outliers. In the context of a lower yield environment, perhaps an acceptance of (high) single digit returns are the new normal, but if that is the bargain, investors correspondingly require such performance expectations to be coupled with operational efficacy; hence their focus on verifiable, repeatable processes in a client centric model. Trust and transparency are now more vital than ever.

CAPITAL FLOWS

Having said that, many funds have experienced erosions in their capital base this year. Citco's client index shows an overall AUM decline of 5% YTD. This will disappoint many observers and appears to be contrary to some of the other industry indicators. We are not sure why there is no consensus on this trend. On a more positive note, start-up activity has improved. New managers recognise the type of product and business integrity required and are consequently succeeding in attracting seed capital.

FUNDS OF FUNDS

Many funds of hedge funds have seen outflows in their traditional co-mingled products, but those groups that are growing have generally engaged in new product development. We are seeing continuing growth in existing managed account platforms, the establishment of new platforms, funds of one and customised mandates. Investors clearly see the benefits of these efforts, because they continue to make allocations to those alternatives that are structured to suit their needs and see them as meaningful contributors to the construction of their portfolios.

REGULATION

As each new layer of regulation adds a layer of cost and raises the bar to entry, a maturing industry has adjusted to the new world with surprising realism. However, there is still debate on whether the designed enhanced consumer protection is really benefitting the consumer. Either way the investor community continues to self-regulate its allocation activities to specific funds through the use of enhanced due diligence protocols and by obtaining greater access through transparency. Investors haven't waited for regulations to deliver them their requisite levels of comfort.

HURRICANE SANDY AND BCP

Overall the industry reacted well to the onslaught of the storm. This was the ultimate test of all of the disaster recovery and business continuity plans that were periodically road-tested within controlled predictive environments. What transpired was both gratifying and mildly surprising; while most plans did actually work, the unintended gaps caused by stark reality (such as the inability of staff to get to DR sites because of the absence of transport or fuel, and generators disabled through being located on flooded ground or basement levels), were overcome by genuine efforts to bridge them through cooperation, partnership and sacrifice. Hence, no key deliverables were missed and the industry was able to function relatively smoothly despite enormous pressure.

HEDGE FUNDS DO CARE

Finally, the industry continues to suffer negative PR, but just occasionally we can be proud of the work performed by many of our colleagues within industry lead charities, such as ARK and Robin Hood. Another charity that is dedicated to the prevention and treatment of child abuse is Hedge Funds Care. It has chapters in numerous hedge fund centre locations worldwide, and given some of the high profile child abuse cases in both the US and the UK this year, it is now more high profile than ever. The charity's grantees have served almost 50,000 individuals and families and conducted 9,000 interventions. So this is a call-out to the people who have done such sterling work for the charity and at all of the 115 grantee organisations. ■

WILLIAM KEUNEN is global director of fund services at Citco

THE WEEK IN QUOTES

"FoHFs HAVE BEEN FORCED TO RE-INVENT THEMSELVES AND GROW INTO DIFFERENT SERVICES"

William Keunen, director of fund services at Citco, is not surprised by the contracting shape of the FoHF market found during *HFMWeek's* latest survey of the space

"MARKETING A FUND FIRST AND FOREMOST AS A SUSTAINABILITY LONG/SHORT FUND CAN INVITE DIFFERENT REACTIONS"

Jason Mitchell, manager for a sustainability equity fund at Man GLG, acknowledges the challenge of interpretation facing the recent drive for ethical investing

"EVEN IF COUNTRIES START DELEVERAGING SCRUPULOUSLY, IT WILL TAKE 20 YEARS TO GET BACK TO A NORMAL LEVEL OF LEVERAGE"

Europe's economy will take 45 years to return to its pre-crisis strength, while the US will struggle for longer still, GLG Partners' bearish chief investment strategist Jamil Baz predicts

EDITOR'S VIEW

t.griffiths@hfmweek.com

As with the single manager results that preceded it, this issue's fund of hedge funds AuA rankings finds itself with a new leader. BNY Mellon's overhauling of historical chart-topper Citco represents a very different achievement to State Street's victory, however.

While State Street leapfrogged Citco off the back of gains made largely through acquisition, BNY's growth is organic. Not only that but its 17% six-month advance falls against a background of declines and stagnation among the bigger players. While few will be surprised by an overall FoHF AuA retreat of 2%, BNY's progress will raise a few eyebrows.

Admins know only too well that the FoHF sector's ability to 'adapt to change' requires progression on their behalf too. BNY's move towards servicing not only FoHFs, but the retail platforms many now sit on, has been a business builder. The rest of the market, it seems, is still playing catch up.

Most of the hedge fund sector has found itself beaten with the 'change' stick at some point, and this issue also sees the heat of the spotlight return to expert networks. The SAC-linked insider trading case has prompted some to call for all conversations between sector specialists and traders to be recorded.

At a time when UK journalists face uncomfortable attention following the publication of the Leveson report, hedge funds once again have matters of principle and self regulation to contend with. In both cases, change is due. Ensuring wider hysteria is minimised will ensure the correct degree is achieved.

TONY GRIFFITHS, EDITOR

HEDGE CUTTINGS

WHAT'S IN A NAME?

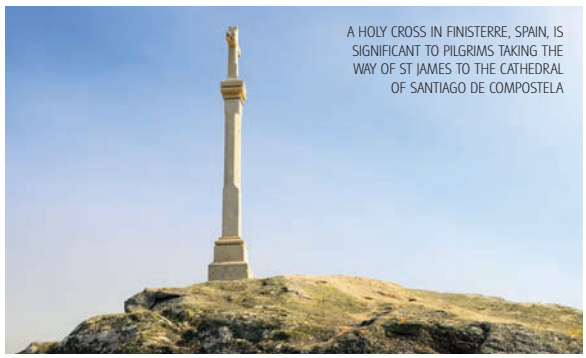
THE STORY BEHIND HEDGE FUND MONIKERS

#147 FINISTERRE CAPITAL

CAPE FINISTERRE, A ROCK-BOUND peninsula on the west coast of Spain, is famous for a number of reasons. It has been the sight of several maritime battles, is the final destination for many pilgrims taking the Way of St James to the Cathedral of Santiago de Compostela, and was also thought to be the westernmost point in the world when the Earth was believed to be flat.

It can also boast being the inspiration for the naming of London-based hedge fund firm Finisterre Capital. The word finisterre derives from the Latin finis terrae, meaning 'the end of the earth', and it is for this reason that the remote peninsula off the Atlantic was used to name Finisterre Capital, as the firm looks out towards the New World.

Founded in October 2002, Finisterre Capital is a long/short emerging markets manager that invests in sovereign debt, local currency debt, foreign exchange, corporate credit, special situations and equity. Its fund range comprises the Finisterre Equity Fund, Global Opportunity Fund, Sovereign Debt Fund and Credit Fund. ■



A HOLY CROSS IN FINISTERRE, SPAIN, IS SIGNIFICANT TO PILGRIMS TAKING THE WAY OF ST JAMES TO THE CATHEDRAL OF SANTIAGO DE COMPOSTELA

60 SECONDS WITH...

JOHN EVERETT
principal, Bovill

CAN YOU DESCRIBE YOUR CURRENT ROLE?
I provide technical input on a wide variety of issues, and also perform 'horizon scanning' for regulatory developments and their possible effects on clients.

IF YOU COULD SCRAP ANY REGULATION AND START AFRESH, WHAT WOULD IT BE AND WHY?
The AIFMD. A chance to produce some sensible and proportionate regulation was lost in the hysteria of the 'something must be done' European political agenda.

WHAT WOULD YOU DO IF YOU WERE THE EUROPEAN COMMISSION PRESIDENT?
I would enjoy my €1,418 per month 'entertainment allowance' [part of Manuel Barroso's pay package as Commission president].

WHO WOULD PLAY YOU IF THEY MADE A MOVIE ABOUT YOUR FIRM?
A film about Bovill? An inspirational and visionary leader driving a team of brilliantly effective individuals into the unknown future of regulation? Sounds a bit like Star Trek to me. Actually, as long as Emily Blunt's the leading lady, I don't care! ■

HFMWEEK

London
Third Floor
Thavies Inn House
3 – 4 Holborn Circus
London, EC1N 2HA
T +44 (0)20 7832 6500
F +44 (0)20 7832 6501

New York
240 West 37th Street
Suite 302
New York NY 10018
T +1 (212) 268 4919

EDITORIAL
Head of content
Tony Griffiths
+44 (0) 20 7832 6622
t.griffiths@hfmweek.com

Senior reporter
Elana Margulies
+1 (212) 268 4944
e.margulies@hfmweek.com

Investment correspondent
Kirstie Brewer
+44 (0) 20 7832 6625
k.brewer@hfmweek.com

Reporters
Will Wainewright
+1 (212) 268 4945
w.wainewright@hfmweek.com

Maiya Keidan
+44 (0) 20 7832 6621
m.keidan@hfmweek.com

Editorial assistant
Andrew Roocroft

Data manager
Indira Peters-DiDio
+1 (212) 268 4919
i.peters@hfmweek.com

Staff writers
Roberto Barros, Jonathan Yarker

COMMERCIAL
Group commercial manager
Lucy Guest
+44 (0) 20 7832 6615
l.guest@hfmweek.com

Publishing account manager
Edward Taylor
+44 (0) 20 7832 6616
e.taylor@hfmweek.com

Tara Nolan
+44 (0) 20 7832 6612
t.nolan@hfmweek.com

Shona Lynch
+44 (0) 20 7832 6614
s.lynch@hfmweek.com

CONTENT SALES
Group head, content sales
Gavin Clink
+44 (0) 20 7832 6592
g.clink@hfmweek.com

Content sales manager
Richard Freckleton
+44 (0) 20 7832 6593
r.freckleton@hfmweek.com

PRODUCTION
Head of production
Claudia Honerjager

Sub-editor Rachel Kurzfield

MARKETING
Sarah Sweby
+44 (0) 20 7832 6574
s.sweby@hfmweek.com

Group head of content
Gwyn Roberts
+44 (0) 20 7832 6623
g.roberts@pageantmedia.com

Chief executive
Charlie Kerr

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HANDLE WITH CARE

The UN Principles for Responsible Investment initiative has turned its sights to the hedge fund space – but what will this mean for managers and the industry as a whole?

BY KIRSTIE BREWER

When European investors APG, The BT Pension Fund and The Church of England (CoE), join forces with the United Nations (UN) and investment consultant Albourne Partners, hedge funds can be expected to take notice. Last month, the UN Principles for Responsible Investment (PRI) initiative for the first time turned its sights to the hedge fund space, and, with the help of an 11-strong working group, including the aforementioned, published a preliminary paper on responsible investment – principally environmental, social and corporate governance (ESG) issues – for hedge funds. With such heavyweight support, hopes for the initiative have been high. But as the heat of the PRI's spotlight nears, questions of practicality, priority and even semantics appear to have left some managers lukewarm.

According to PRI's 2011 Reporting and Assessment survey, 137 signatories have some exposure to hedge fund investments and there are ten signatories who have categorised themselves as hedge fund managers. As the number of signatories continues to climb, so does demand for hedge funds who adopt its principles, say PRI and the investors on the working group.

"Many signatories have significant allocations to hedge funds and the PRI has a growing number of hedge fund manager signatories. However, there is currently no clear consensus on what being a responsible investor in hedge funds actually entails," says Rob Lake, director of responsible investment at PRI, who added that the paper was fuelled by investor demand – particularly from European investors.

Investor demand for hedge funds employing sustainability strategies is on the up – strong signals are coming from an array of European investors, Dutch and Scandinavian institutions in particular, says Jason Mitchell, manager of the Global Sustainability Equity Fund at Man Group's GLG Partners subsidiary, one of the few hedge fund firms to have signed up so far. GLG has a long/short 'natural selection' strategy, currently being run as a part of a European long/short UCITS IV fund where it is testing thematic and ESG overlays. Talks of spinning it out in 2013 have been held and investors are keen, though no firm plans have been made and it isn't currently a primary or urgent focus, according to Mitchell.

As he explains, the firm is wrestling with whether to market a long/short fund under an ESG or sustainability label: "I would say that a long/short fund that applies ESG analysis within a specific opportunity set of companies commonly regarded as sustainable and under higher levels of transparency and active engagement qualifies as a sustainability fund. If the fund manages to produce strong, risk-adjusted returns, investors will recognise the value of ESG as part of the process. But it seems misguided and narrow to market a long/short fund specifically on the basis of ESG or UN PRI," he said.

"In my experience, marketing a fund first and foremost as a sustainability long/short fund can invite different reactions and differing normative interpretations about the application of UN PRI and its six principles – particularly the one concerning active engagement and ownership," Mitchell adds.

The PRI's use of normative language was a bone of contention among a number of hedge fund managers interviewed by *HFMWeek*. How, for example, could a computer driven hedge fund model interpret these? asked one manager in the CTA space. The idea of what

MEMBERS OF THE PRI HEDGE FUNDS WORKING GROUP

ERIK EIDOLF, Harcourt Investment Consulting (working group chair April 2011 to March 2012)
PAULUS INGRAM, APG (working group chair March 2012 onwards)
WILLIAM BRYANT and STEPHEN KENNEDY, Albourne Partners Limited
THOMAS DEINET, Hedge Fund Standards Board
IIANN DWEK, The Environmental Investment Partnership LLP
KATHRYN GRAHAM, BT Pension Scheme
EDWARD MASON, Church of England National Investing Bodies
BILL MILLS, Highland Good Steward Management
TOM ROTHERHAM, Hermes EOS
KRIS DOUMA, MN
ULLA SALOMAA, Mutual Insurance Company Pension-Fennia

APG AND THE CHURCH OF ENGLAND

ACCORDING TO DUTCH pension giant APG, one of the most remarkable trends of the last few years has been the increasing number, and wide variety, of hedge fund managers willing to have an ESG policy. But while funds have already made public commitments to responsible investment, very few have published a policy that includes specific wording to drive its implementation into investment decision making.

"APG has experienced that hedge fund managers frequently take into account ESG themes and issues in fundamental analysis but haven't articulated or documented this specifically," says Paulus Ingram, working group chair and senior portfolio manager for hedge funds at the fund – Europe's largest hedge fund investor with around €13bn ($16.7bn) in exposure across around 65 hedge funds. "The PRI initiative can give investors in hedge funds in the first instance a risk mitigation tool," he told *HFMWeek*. As hedge funds are increasingly transparent about how they act responsibly, managers reinforce their social licence to operate, which also makes investing through hedge funds easier for investors, he says.

Meanwhile, working group member Edward Mason of The Church of England (CoE) National Investing Bodies, which includes The Church Commissioners and the CoE Pensions Board, had particular input into, and is particularly interested in, the sections of the paper dealing with potential societal impacts of trading in commodities, currency and sovereign debt, and potential impacts on businesses and individuals of short-selling, distressed debt and M&A strategies. "The Church Commissioners have so far made allocations to global macro and equity long/short strategies and the Church of England Pensions Board have made allocations to GTAA funds. We'll see in due course how our guidelines impact on other kinds of strategy," he says.

constitutes 'good' is a social construction, several pointed out. "Oxfam's definition of 'good' includes GM foods, while Greenpeace would be antithetical to that," notes one. "Should we be investing in oil and gas in Burma? You could argue that we should have no affiliation, but on the other hand, you could argue that if we don't do it, the Chinese or another nation will do it, who aren't as concerned about responsible investment," says another.

Another concern for the larger hedge funds and funds of hedge funds *HFMWeek* spoke to was how a single, comprehensive PRI policy could be applied to large multi-strategy alternative asset managers – publically listed firms like Man Investments, Fortress and Och Ziff, for example, which represent more distributed models with dozens of funds and asset managers across most asset classes. How to address and reconcile differing interpretations and applications of PRI is something Man Investments are currently debating, Mitchell confirms.

Furthermore, at a time when hedge funds are swamped with regulatory burdens and have slowly come around to engaging with the Hedge Funds Standard Board (HFSB), is there any need for another body with another initiative to bang the drum about good governance in parallel?, asks one chief compliance officer at a recently launched London-based hedge fund firm. "It is good as a laymen's guide to understanding hedge funds, but it seems fairly woolly at this stage – I'm not sure what those in the hedge fund industry reading it are supposed to take away from it," he says.

In response, Thomas Deinet, executive director at HFSB, and also a member of the PRI hedge fund working group, was keen to highlight the differences between the two groups. Environmental and social issues are a matter for investors to decide, he explained, while the HFSB focuses on standards of governance, disclosure and risk management, not the investments of the funds. "We welcome the fact that the UNPRI Hedge Fund discussion paper recognises the importance of good governance, which is central to the HFSB and it is good that the discussion paper references the work of the HFSB in this area, rather than re-inventing the wheel," he says.

Sentiment towards the paper and its impact on both hedge funds and investors was somewhat sceptical among the consultants and capital introduction personnel *HFMWeek* spoke to, none of whom were willing to go on the record to critique the initiative. They broadly felt that their clients had other priorities and concerns and any real movement towards ESG hedge funds was yet to take hold.

However, in the influential support of Albourne Partners, who, with $300bn in hedge fund assets under advisory across 234 hedge fund clients, the PRI has a voice with concentrated investor clout.

As Stephen Kennedy, head of Albourne's ESG project and member of the PRI working group, explains: "The paper should outline to managers that signing up doesn't necessarily have to be an onerous undertaking, it is potentially quite powerful from a returns point of view and a risk mitigation standpoint."

Hedge funds who become signatories are opening themselves up to a new pool of investors, he says, noting that Albourne has seen more movement among European and Australian clients that are signatories and more recently by some US State plans, with a number of them having more board discussions around the topic.

And for funds without the power to magnetise investment from pension giants like CalPERS, investors at the smaller end of the spectrum are also showing an interest in taking their ESG considerations to hedge funds, Kennedy says. "Some of the smaller entities are easier to turn because they have smaller investment committees, smaller boards – and more streamlined programmes with fewer overall relationships, which in some ways makes it easier to have those targeted conversations."

"The paper will be a success if it promotes discussion – internally at asset owners, between asset owners and their hedge fund managers, and between hedge fund managers and PRI, so that we can all explore further what RI looks like in the hedge fund space," says CoE's Edward Mason.

Ultimately, the paper marks an official step towards greater engagement between investors and hedge funds – and the topic requires careful consideration. "I think it's in everyone's interest to see strategies in this area much more carefully and thoughtfully conceived rather than undergo another boom like we saw in cleantech funds several years ago," Mitchell warns.

The PRI and its influential investor signatories have spoken. They are now looking for the hedge fund community to enter the debate. ■

THE SIX UN PRINCIPLES FOR RESPONSIBLE INVESTMENT

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

PART 2 FUNDS OF HEDGE FUNDS

Change is afoot in the contracting fund of hedge funds sector. *HFMWeek* explores the consequences for administrators servicing the space

BY WILL WAINEWRIGHT

The words 'consolidation' or 'closure' have not been far from many stories covering the fund of hedge funds (FoHF) sector over the last six months, which to an extent explains the 2% assets drop recorded by *HFMWeek*'s latest AuA survey of the space. While a decrease from $1.092bn to $1.066bn is by no means catastrophic – it merely returns the FoHF sector to its size of 12 months ago – the main trends are clear: the sector is shrinking, and many smaller firms are either selling or closing their FoHF units.

The examples are plentiful. Cantor Fitzgerald's purchase of Coast Asset Management's FoHF unit, a small US firm, saw the latter become the latest FoHF to be scooped up by a bigger firm this year, joining FRM Holdings, K2 Partners and Prisma Capital. The last quarter also saw UK firm Tarchon Capital decide to shutter its FoHF, which once ran $3bn, to concentrate on its single manager business. The developments support the thesis forwarded by Omar Kodmani, of $20bn Permal Group, to *HFMWeek* in May that the contemporary FoHF needs at least $5bn under management to effectively tap institutional inflows and flourish.

However, the wider sector's trend towards performance stagnation is not without its anomalies. SkyBridge Capital, Anthony Scaramucci's $6.7bn firm, has scored big this year in both performance and investment terms, with its flagship fund up 17.9% for the first ten months and retail backers lining up to invest. But the direction of traffic is clear, and with the average FoHF up just 2.95% for the first ten months, many face a real struggle to win new investor backing.

This has been noted by administrators servicing the space. Equinoxe, which has a small FoHF client base, said deal-making resulted from "the question mark over the sustainability of their business model and difficulty of raising assets," while Isis observes that "there are not as many FoHFs launching in the US now as there were five years ago." Vastardis Fund Services, a firm which has previously concentrated on FoHFs, is now looking to build out its single manager offering. Change is afoot.

The latest ranking's top 20 is packed with big movements, with four firms losing 20% or more of their FoHF business within the last six months. SS&C GlobeOp (-20%), HSBC (-34%), J.P. Morgan (-29%) and Banque Privee E. De Rothschild (-41%) together lost more $40bn. However, the 10%-plus gains recorded by BNY Mellon (17%), Northern Trust (11%) and Admiral (40%) ensured the sector-wide decline was limited to 2%.

Of the biggest gainers, BNY Mellon's six-month advance from $111.4bn under administration to $130.6bn is the most eye-catching and propels the US firm into first place, leapfrogging long-time leader Citco Fund Services, which recorded a small decline. The jump is all the more significant given how it contrasts with BNY Mellon's marginal 1% advance in the single manager space, indicating a particular focus on an embattled market which other admins may be cold-shouldering.

DIVIDING LINES

One debate arising from this year's consolidation activity centers on whether it is a good idea for the same firm to provide both administration and prime brokerage services. While the need, brought on by poor results, for Goldman Sachs to focus on core activities was the main reason for the sale of its admin unit to State Street, sources at the time told *HFMWeek* that investors viewed the separation as a positive development. A greater range of providers was seen as beneficial from a compliance standpoint.

In its response to the survey, Morgan Stanley, a firm which has been named in reports as one which could offload its admin unit, was keen to stress how its "industry leading prime brokerage division" was "completely independent from Morgan Stanley Fund Services". Given Morgan's similarity to Goldman Sachs as a top-tier prime broker and (until the sale) top-ten administrator, it was probably inevitable that some would suggest a similar sale as a possibility. However, prime brokerage is not the near duopoly of pre-2008, and other primes are not keen on their fellow firms acting as admins. The question of whether it is prudent to offer both, in the market as it currently stands, remains.

	Apr 12 Position	Moved up/down		6 Month Growth: Oct 12 AuA ($bn)	Apr 12 AuA ($bn)	Apr 12 - Oct 12 growth (%)	Oct 11 Position	Moved up/down	12 Month Growth: Oct 12 AuA ($bn)	Oct 11 AuA ($bn)	Oct 11 - Oct 12 growth (%)
1	2	▲	BANK OF NEW YORK MELLON	130.60	111.40	17% ▲	2	▲	130.60	110.60	18% ▲
2	1	▼	CITCO FUND SERVICES	128.00	133.00	-4% ▼	1	▼	128.00	130.00	-2% ▼
3	4	▲	CREDIT SUISSE [1]	87.00	87.00	0% –	3	–	87.00	90.00	-3% ▼
4	5	▲	STATE STREET AIS GROUP	85.00	84.60	0% –	6	▲	85.00	70.10	21% ▲
5	3	▼	UBS FUND SERVICES [2]	83.48	91.27	-9% ▼	4	▼	83.48	85.38	-2% ▼
6	6	–	SEI	61.00	60.00	2% ▲	5	▼	61.00	71.50	-15% ▼
7	7	–	CITI HEDGE FUND SERVICES	52.48	52.11	1% ▲	7	–	52.48	55.76	-6% ▼
8	11	▲	HEDGESERV	43.00	40.00	8% ▲	10	▲	43.00	39.00	10% ▲
9	9	–	BNP PARIBAS SECURITIES SERVICES	42.70	44.50	-4% ▼	11	▲	42.70	38.80	10% ▲
10	12	▲	BUTTERFIELD FULCRUM GROUP [3]	35.00	35.00	0% –	12	▲	35.00	35.00	0% –
11	10	▼	SS&C GLOBEOP	32.00	40.00	-20% ▼	10	▼	32.00	39.00	-18% ▼
12	15	▲	NORTHERN TRUST	31.67	28.64	11% ▲	14	▲	31.67	30.03	5% ▲
14	8	▼	HSBC SECURITIES SERVICES	28.00	42.65	-34% ▼	8	▼	28.00	46.18	-39% ▼
14	14	–	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	28.00	30.00	-7% ▼	15	▲	28.00	30.00	-7% ▼
15	13	▼	JPMORGAN HEDGE FUND SERVICES	23.40	33.00	-29% ▼	13	▼	23.40	34.20	-32% ▼
16	17	▲	CACEIS INVESTOR SERVICES [4]	21.59	21.09	2% ▲	17	▲	21.59	18.23	18% ▲
17	18	▲	VASTARDIS FUND SERVICES	17.49	17.38	1% ▲	19	▲	17.49	17.07	2% ▲
18	19	▲	UMB FUND SERVICES [1]	17.15	17.15	0% –	18	–	17.15	17.46	-2% ▼
19	16	▼	BANQUE PRIVEE E. DE ROTHSCHILD	15.07	25.53	-41% ▼	16	▼	15.07	24.79	-39% ▼
20	22	▲	ADMIRAL ADMINISTRATION LTD [5]	12.97	9.28	40% ▲	21	▲	12.97	8.80	47% ▲
21	20	▼	HARMONIC FUND SERVICES	10.07	9.56	5% ▲	50	▲	10.07	0.50	1914% ▲
22	21	▼	SGSS [1]	9.50	9.50	0% –	20	▼	9.50	9.90	-4% ▼
23	23	–	RBC INVESTOR SERVICES	7.36	8.20	-10% ▼	23	–	7.36	8.13	-9% ▼
24	24	–	MAPLES FUND SERVICES	6.84	7.47	-8% ▼	27	▲	6.84	3.79	80% ▲
25	25	–	CUSTOM HOUSE GLOBAL FUND SERVICES	6.21	6.22	0% –	24	▼	6.21	5.72	9% ▲
26	27	▲	EUROPEAN FUND ADMINISTRATION	4.32	4.45	-3% ▼	22	▼	4.32	8.40	-49% ▼
27	28	▲	APEX	3.87	4.01	-3% ▼	38	▲	3.87	1.16	234% ▲
28	46	▲	U.S. BANCORP FUND SERVICES [6]	3.42	0.87	293% ▲	45	▲	3.42	0.65	426% ▲
29	29	–	RBC OFFSHORE FUND MANAGERS LIMITED [5]	3.34	3.69	N/A –	26	▼	3.34	4.15	N/A –
30	30	–	KAUFMAN ROSSIN FUND SERVICES [1]	3.30	3.30	0% –	28	▼	3.30	3.10	6% ▲
31	38	▲	CIRCLE PARTNERS	2.50	1.20	108% ▲	37	▲	2.50	1.20	108% ▲
32	32	–	INVESTMENT DATA SERVICES GROUP (IDS)	2.18	1.80	21% ▲	30	▼	2.18	1.83	19% ▲

AUA ACCOLADES

In Olympic year, *HFMWeek* thought it fitting to recognize two of the sector's highest achievers this time around, and two which still have work to do.

GOLD MEDAL PERFORMANCE BNY MELLON

The biggest growth in the top ten – in both relative and absolute terms – has handed top-spot to BNY's unit, which has achieved impressive FoHF business over a period many rivals saw declines. As one of the standout organic growers in the last few surveys the firm has shown, during a time of rampant consolidation in the admin space, that you don't have to acquire rivals to grow AuA.

PODIUM FINISH US BANCORP FUND SERVICES

Though a comparatively small player in the FoHF admin world, US Bancorp has raced from $0.9bn under administration to $3.4bn in the last six months, an impressive proportional increase. AIS, which it has just acquired, does not feature on the FoHF side, but the great strides made by US Bancorp more than compensate.

ROOM FOR IMPROVEMENT UBS

The Swiss bank saw FoHF AuA decline 9% in the last six months, from $91.3bn to $83.5bn, which counts as the biggest percentage drop among the top ten this survey. That comes after a 7% increase in the preceding six months, indicating that it could represent a return to mean. However, the firm will be keen to avoid a similar decline next time.

ROOM FOR IMPROVEMENT SS&C GLOBEOP

Accounting methodology meant FoHF AuA at GlobeOp going into its acquisition this year by SS&C could not be established, but – even if it was insignificant – the 20% drop for SS&C compared to six months ago is unwelcome. While AuA overall has stayed steady during the integration, such a large drop on the FoHF side will no doubt be investigated by Bill Stone's firm.

	APR 12 POSITION	MOVED UP/DOWN		6 MONTH GROWTH				OCT 11 POSITION	MOVED UP/DOWN	12 MONTH GROWTH			
				Oct 12 AuA ($bn)	Apr 12 AuA ($bn)	Apr 12 - Oct 12 growth (%)				Oct 12 AuA ($bn)	Oct 11 AuA ($bn)	Oct 11 - Oct 12 growth (%)	
33	31	▼	ALPHAMETRIX360 [3]	2.00	2.00	0%	–	29	▼	2.00	2.00	0%	–
34	35	▲	MERIDIAN FUND SERVICES	1.97	1.63	21%	▲	35	▲	1.97	1.31	50%	▲
35	33	▼	DAIWA SECURITIES GLOBAL ASSET SERVICES [7]	1.70	1.70	0%	–	31	▼	1.70	1.70	0%	–
36	34	▼	ISIS FUND SERVICES	1.68	1.69	-1%	▼	32	▼	1.68	1.58	6%	▲
38	–	–	STONE COAST FUND SERVICES	1.60	N/A	N/A	–	–	–	1.60	N/A	N/A	–
38	36	▼	ALPS FUND SERVICES	1.60	1.50	7%	▲	33	▼	1.60	1.50	7%	▲
39	–	–	GRASSI & CO	1.51	N/A	N/A	–	–	–	1.51	N/A	N/A	–
40	–	–	ODB FUND SERVICES	1.48	N/A	N/A	–	–	–	1.48	N/A	N/A	–
41	37	▼	ATC FUND SERVICES [1]	1.40	1.40	0%	–	34	▼	1.40	1.40	0%	–
42	39	▼	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	1.27	1.20	6%	▲	37	▼	1.27	1.20	6%	▲
43	40	▼	FOLIO ADMINISTRATORS [3]	1.13	1.13	0%	–	39	▼	1.13	1.13	0%	–
44	41	▼	WOODFIELD FUND ADMINISTRATION	1.10	1.10	0%	–	41	▼	1.10	1.10	0%	–
45	43	▼	COLUMBUS AVENUE CONSULTING	1.00	1.00	0%	–	42	▼	1.00	1.00	0%	–
46	44	▼	LEGIS FUND SERVICES	0.97	0.98	-1%	▼	54	▲	0.97	0.28	246%	▲
47	45	▼	CAPITA FINANCIAL GROUP [3]	0.95	0.95	0%	–	43	▼	0.95	0.95	0%	–
48	42	▼	WELLS FARGO GLOBAL FUND SERVICES [8]	0.90	1.10	-18%	▼	41	▼	0.90	1.10	-18%	▼
49	47	▼	PANOPTIC FUND ADMINISTRATION [3]	0.84	0.84	0%	–	44	▼	0.84	0.84	0%	–
50	53	▲	TRIDENT FUND SERVICES	0.79	0.39	103%	▲	51	▲	0.79	0.39	103%	▲
52	48	▼	INTERTRUST [1]	0.56	0.56	0%	–	46	▼	0.56	0.58	-3%	▼
52	52	–	SFT FUND ADMINISRATION	0.56	0.48	17%	▲	56	▲	0.56	0.25	124%	▲
53	49	▼	PRAXIS [3]	0.51	0.51	0%	–	47	▼	0.51	0.51	0%	–
54	51	▼	PINNACLE FUND ADMINISTRATION [3]	0.50	0.50	0%	–	50	▼	0.50	0.50	0%	–
55	54	▼	TRINITY FUND ADMINISTRATORS	0.45	0.30	50%	▲	53	▼	0.45	0.30	50%	▲
56	56	–	CAYMAN NATIONAL [1]	0.25	0.25	0%	–	56	–	0.25	0.25	0%	–
57	57	–	VALLETTA FUND SERVICES [3]	0.22	0.22	0%	–	57	–	0.22	0.22	0%	–
58	50	▼	CONIFER FUND SERVICES	0.20	0.50	-60%	▼	50	▼	0.20	0.50	-60%	▼
59	58	▼	PSG ACTIVE FUND SERVICES LIMITED [3]	0.16	0.16	0%	–	58	▼	0.16	0.16	0%	–
60	59	▼	CALEDONIAN FUND SERVICES [3]	0.11	0.11	0%	–	59	▼	0.11	0.11	0%	–
61	60	▼	CIBC [3]	0.10	0.10	0%	–	60	▼	0.10	0.10	0%	–
63	61	▼	ATU FUND ADMINISTRATION (BVI) LTD [3]	0.08	0.08	0%	–	62	▼	0.08	0.08	0%	–
63	62	▼	VITEOS FUND SERVICES	0.08	0.08	0%	–	62	▼	0.08	0.08	0%	–
64	55	▼	G&S	0.07	0.27	-74%	▼	52	▼	0.07	0.33	-79%	▼
65	63	▼	NOTTINGHAM INVESTMENT ADMINISTRATION	0.05	0.05	0%	–	63	▼	0.05	0.05	0%	–

FOOTNOTES [1] Data correct as of 30 April 2012. [2] Includes fund of private equity funds. [3] Data at least one year old. [4] Data correct as of 30 June 2012. [5] Data correct as of 30 September 2012. [6] US Bancorp has agreed to acquire AIS Fund Administration but their assets remain separate in this survey. [7] Data correct as of 30 April 2012: Daiwa Securities Global Assets Services is currently being purchased by Sumitomo, the Japanese bank, and fresh figures were not available.
[8] Previously LaCrosse Global Fund Services. Wells Fargo purchased LaCrosse in Sept 2011 and re-named it in September 2012.

"It has been challenging for many FoHFs but they are still a very important part of the market," according to Orla Nallen, a managing director within BNY Mellon's Alternative Investment Solutions unit and FoHF specialist. She adds that some FoHFs looking to outsource more back office functions – such as trade execution and document-tracking – have chosen her firm to provide the entire service offering rather than stick with their existing administrator.

A second driver for BNY Mellon's growth ties in with a hot trend that could prove crucial to the FoHF sector's future: retail investment (*see box two, overleaf*). SkyBridge's bumper 2012 inflows have stemmed from its strong retail distribution network in the US with platform partners including Merrill Lynch and Morgan Stanley. Although not naming clients, Nallen said BNY Mellon's ability to service both FoHFs and the platforms they sit on, had been an effective business winner and was an area they are keen to expand.

William Keunen, director of fund services at displaced leader Citco, says the contracting shape of the FoHF market does not come as a surprise. "The successful FoHFs are the ones that have reinvented themselves by expanding their product lines," he says, naming managed account platforms, bespoke products and funds of one as examples. Funds are "looking for more than pure administration," he adds, in areas such as "technology and front-office support".

The result for admins is that they too have had to expand their service offering, adds Keunen. "This market is no longer solely driven by assets under administration. Providers are expanding into a range of services not tied to AuA, such as

AUA TOTALS

TOTAL AuA APR 12 **$1.09bn**

TOTAL AuA OCT 12 **$1.07bn**

-2%

6-MONTH CHANGE

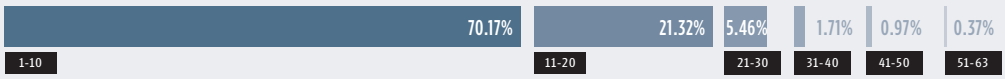
TOTAL AuA OCT 11 **$1.07bn**

TOTAL AuA OCT 12 **$1.07bn**

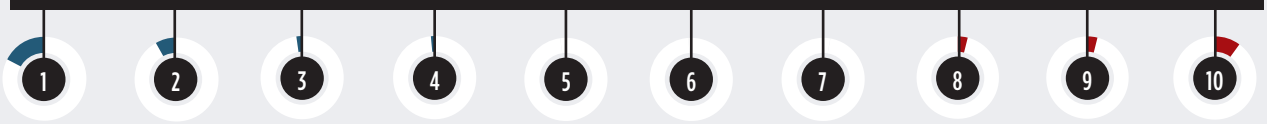
0%

12-MONTH CHANGE

DISTRIBUTION OF ASSETS ACROSS THE LIST

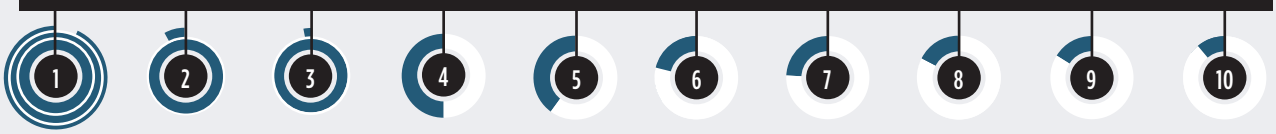


THE TEN LARGEST ADMINISTRATORS RANKED BY % GROWTH



1	2	3	4	5	6	7	8	9	10
17% BANK OF NEW YORK MELLON	**8%** HEDGESERV	**2%** SEI	**1%** CITI HEDGE FUND SERVICES	**0%** STATE STREET AIS GROUP	**0%** CREDIT SUISSE	**0%** BUTTERFIELD FULCRUM GROUP	**-4%** CITCO FUND SERVICES	**-4%** BNP PARIBAS SECURITIES SERVICES	**-9%** UBS FUND SERVICES

THE BIGGEST RISERS ON THE LIST BY % GROWTH



1	2	3	4	5	6	7	8	9	10
293% U.S. BANCORP FUND SERVICES	**108%** CIRCLE PARTNERS	**103%** TRIDENT FUND SERVICES	**50%** TRINITY FUND ADMINISTRATORS	**40%** ADMIRAL ADMINISTRATION	**21%** INVESTMENT DATA SERVICES GROUP (IDS)	**21%** MERIDIAN FUND SERVICES	**17%** BANK OF NEW YORK MELLON	**17%** SFT FUND ADMINISTRATION	**11%** NORTHERN TRUST

> "IT WILL BE INTERESTING TO SEE HOW THIS CONSOLIDATION ACTIVITY IMPACTS SERVICE QUALITY LEVELS"
>
> WILLIAM KEUNEN

middle office, tax reporting and regulatory compliance."

State Street is now the biggest admin provider to the hedge fund industry following its acquisition of Goldman Sachs' unit and Keunen does not rule out Citco making future purchases, with a lot of smaller firms up for sale. However, he says: "A lot of businesses with diverse products and infrastructures have been brought together quickly. It will be interesting to see how this consolidation activity impacts service quality levels."

Citco and other rivals to the newly consolidated firms will not be the only observers watching on with interest. FoHFs and their investors will also be keen to ensure that integrations transpire smoothly and flawlessly. Their success will determine whether clients choose to stick or twist – and may prove a useful guide to how many other firms choose to build AuA through acquisitions in the coming months.

Given the direction of traffic, restoring FoHF business to former levels may be an impossible task for many of the list's constituents, with nine – or almost 14% – suffering declines of at least 10% in six months. However, BNY Mellon's progress indicates that success against the odds is possible – a lesson many FoHFs will be aiming to learn from in 2013. ■

A RETAIL FUTURE?

If there is a path to salvation for the embattled FoHF sector, signs this year suggest that retail money could guide the way. *HFMWeek* revealed in September that Blackstone's $42bn FoHF unit had raised almost $100m for its first retail-focused offering predominantly through high-net-worth clients on Morgan Stanley Smith Barney's platform. SkyBridge's blockbuster growth, which saw its flagship grow by $1bn in 12 months, has resulted from inflows via Merrill Lynch and Morgan Stanley platforms. As with other FoHF managers targeting retail money, SkyBridge's offering is structured as a registered investment company (RIC). With closures and buy-outs still sweeping the space, the drive for retail money may not be enough to trigger a bounce-back in the next survey, but it is hope at least for a sector under siege.

RATIONALE

HFMWeek's AuA figures are carefully compiled using data supplied by individual administration companies. Each reporting body is expected to strip out leverage, private equity and property numbers to give an accurate picture of the current size of the hedge fund universe. Figures are rounded to two decimal places, whereas percentage growth expresses the full six-month figure.

FOCUS ON

HONG KONG PRESENCE

Jonathan Culshaw, of Harney Westwood & Riegels, discusses recruiting for growth in the context of Harneys' Asia offshore funds practice and sets out his beliefs as to what clients want from their offshore lawyers

Jonathan Culshaw is the Asia managing partner of Harney Westwood & Riegels. Recommended as a leading Cayman Islands law expert by each of Chambers, Legal 500 and IFLR, Jonathan advised on the establishment and maintenance of all types of Cayman funds.

I relocated to Harneys' Hong Kong office as Asia managing partner at the beginning of the year. Since arriving, one of my key priorities has been to grow our Cayman funds business here in Asia. The last time I was in Hong Kong was some years ago as a green associate with Freshfields doing a four-month stint living above a fish and chip shop in Wanchai. Although I have happy memories of that time (and the fish and chips!), I was aware that we needed to bring in some senior funds lawyers with local market knowledge to assist the Asia funds drive.

I had worked with Tim Bridges before and had been impressed with him as a lawyer, but what had impressed me more was the progress he had been able to make at Ogier in Hong Kong. The British Virgin Islands and Cayman Islands are the material offshore jurisdictions in Asia and when Tim set up the Hong Kong office of Ogier in 2006 with Duncan Smith, Ogier was known primarily as a Jersey firm. Starting from a small base, Tim's hard work, sensible hiring and dogged marketing created an office with a strong reputation for delivering quality Cayman Islands law advice. I asked him to join me at Harneys and was delighted when he accepted. 'Team player' is an over-used term and often designates one of Carl Icahn's fraternity presidents, a self-preserving 'yes man' of limited ability. Tim is a team player in the real sense of someone who works in the interests of the firm, shares his ideas and is prepared to speak his mind. We have created an office environment which is collegiate and open; one where we work together to come up with the best solutions for our clients.

> "RECRUIT THE BEST PEOPLE, TREAT THEM WITH RESPECT AND ACT TO FACILITATE THEIR SUCCESS"

In October, our funds team was further strengthened by the arrival of Tim's former Ogier colleague, Lisa Pearce, who is rated by all of the leading directories as one of the best offshore funds lawyers in Asia. Her prior experience at the Hong Kong office of Simmons & Simmons means she is very aware of the onshore issues affecting offshore structuring and I think clients appreciate this. They don't want their Cayman lawyers to be operating in a vacuum of knowledge of applicable local tax and regulation and are looking for holistic advice. We also have very promising local lawyers in our nine person investment funds team including experienced Eva Tam (previously head of Hong Kong product development at JP Morgan Asset Management) and fluent Mandarin speaker and offshore funds specialist Val Lam.

There are Cayman lawyers working on offshore funds structures everywhere from São Paulo to New York, from London to Hong Kong. As a global brand we have to be aware of local sensibilities and the cultural differences of local markets. Having said that, my experience has been that clients want the same kind of service from their Cayman lawyers wherever they are located.

Clients are working to demanding timeframes with complex underlying commercial requirements. They don't want the Cayman wrapper to become yet one more problem to deal with. Offshore lawyers should provide solutions to potential issues with minimum fuss and not become just one more time-consuming hurdle to overcome.

I am a believer in the Gladwell model that you need 10,000 hours to become an expert in anything and Cayman offshore funds work does not support the armies of document churning juniors that onshore transactional practices field. The role requires strong drafting and reviewing skills and the ability to offer rapid and high-level structuring advice. The original Cayman model of recruiting seasoned lawyers from top onshore practices has been watered down as firms increase leverage by adopting onshore pyramid staffing models which don't work in an offshore funds context.

The pricing and scope of work should be clear, certain and concise. To the extent possible pricing should be fixed and not contingent on the satisfaction of unrealistic assumptions.

As a firm, we are confident that we are going to go from strength-to-strength and the success we have had to date in a short time is just a factor of keeping it simple. Recruit the best people, treat them with respect and act to facilitate their success. ■

FOCUS ON

BVI PARTNERSHIPS

Although Limited Partnerships are often regarded as not being well suited for hedge funds, Marianne Rajic of Walkers examines how they are actually a good fit for funds in the British Virgin Islands

Marianne Rajic is a partner with Walkers in the firm's British Virgin Islands office where she heads Walkers' BVI Investment Funds practice.

Providing a wide range of structural benefits, international limited partnerships are more frequently being favoured as vehicles for master funds in the British Virgin Islands (BVI).

Although the BVI business company dominates the international corporate environment as the most widely used BVI structure, the popular belief that partnerships are not well suited for BVI hedge funds is not strictly true. The concern has always been that the partnership could be 'accidentally' dissolved, should something happen to the general partner, for example. However, the BVI's partnership legislation provides a mechanism for the partnership to continue in such circumstances. As long as the documents are correctly drafted, partnerships work extremely well for BVI hedge funds.

Governed by the BVI Partnership Act 1996 (the Act), which combines elements from the UK Limited Partnership Act 1907 and Delaware's legislation from 1983, the international limited partnership is the structure commonly employed in domestic/offshore master/feeder structures. Importantly, international limited partnerships may not carry on business with any persons resident in the BVI, nor may they own interests inland in the BVI other than business leases.

The structure does provide a host of advantages, notably that the general partner can be a corporation and does not need to be registered or resident in the BVI and as you would expect, the liability of limited partners is limited to the amount contributed by the limited partner. The partnership is granted tax exempt status in the same manner as the BVI business company. Partnership names can be reserved for up to 90 days and must have the words "Limited Partnership" at the end, or the abbreviation LP.

Other notable features include no limitation on the number of partners and the ability to have fixed term and nonstandard dissolution events, while identities of limited partners are not available on the public record. International limited partnerships must have a registered agent in the BVI and must be registered in the BVI. They are formed by filing the Memorandum of Limited Partnership with the Financial Services Commission. Additionally, there is a clear definition of the powers of limited partners, with management of the partnership conducted in accordance with the Articles of Limited Partnership.

The Articles of Limited Partnership, or limited partnership agreement as it is more commonly referred to, governs matters such as dividends or duties of the general partner. A copy of the agreement must be held at the partnership's registered office in the BVI, but is not available on the public record.

Limited partners are not liable for the obligations of a limited partnership unless they are also a general partner or there is some participation in the control of the partnership business, in which case liability extends only to persons transacting with the partnership who believed they were dealing with a general partner. Other exceptions include where a limited partner's name appears in the name of the limited partnership.

Management rights rest with the general partner, including the right to participate in the management of the partnership subject to any limitations in the limited partnership agreement. In order to retain limited liability, limited partners are primarily passive investors in the business of the partnership, providing capital in exchange for economic benefit. Accordingly, the Act generally limits the rights and powers of a limited partner to the right of access to partnership information, with the same rights as a general partner in that regard.

Certain events may result in the dissolution of a limited partnership, such as the expiry of any fixed term for the partnership; termination of the purpose for forming the partnership or by notice given by any partner. Other reasons include an illegal business purpose, a court order brought by any partner on the grounds that a partner is incapable of performing their part of the partnership contract, or a breach of agreement. The partnership may also be dissolved if the business can only be carried on at a loss, or if dissolution would be just and equitable. Death, bankruptcy (in certain circumstances), retirement, incapacity or the insolvency of a general partner can also dissolve the partnership, so care must be taken when drafting the Articles of Limited Partnership to ensure that the limited partnership is not 'accidentally' dissolved. ■

DATA MANAGEMENT

With investors demanding more information from their hedge fund managers – at a much quicker rate – Patrick Hayes, of State Street, examines the evolving role of data management

Patrick Hayes is a senior vice-president responsible for State Street's hedge fund business in Europe. He has more than 25 years of experience in the financial services industry spanning fund administration, capital markets and operations.

Changes sweeping across the investment industry pose profound implications for hedge fund managers and how they manage data. As investors develop new approaches to asset allocation and risk management, their demand for enhanced information is accelerating. Compounding this challenge for hedge funds are the many regulatory directives emerging that include additional reporting and recordkeeping requirements. The mounting need to achieve efficiencies in their overall operations is driving many hedge funds to consider innovative options, including strategic partnerships with servicing providers that can deliver scalable, outcome-driven solutions.

Today's growing focus on data management stems largely from the investor – and regulator-driven pursuit of greater transparency and risk awareness. Responding to a difficult investment climate, investors are revising allocation strategies to accommodate a broader range of asset classes, including alternatives. They are also adopting more robust methods for managing risk in a volatile low-return environment.

CLIENT DEMANDS

To support efforts to balance risk and reward, investors seek high-quality data – something hedge fund managers are being increasingly challenged with providing. The reality of data management issues emerged in a new State Street survey of asset owners conducted by Asset International.

The research included 116 responses, as well as 11 in-depth interviews with asset owners. Among the operational challenges identified by asset owners, data integration is at the forefront, and 63% of respondents expect their data management challenges to increase.

In addition, asset owners reported that increased complexity stemming from alternative asset classes is a key factor, with 31% citing it as "significant." As a result, asset managers have increased pressure to provide more transparent and comprehensive data to their clients, particularly as owners indicate that managers' lack of disclosure compromises their ability to integrate data.

EXTERNAL ASSISTANCE

Considering increasing complexity and reporting burdens, the benefits of leveraging the scale and expertise of third-party providers through outsourcing partnerships look increasingly attractive. For example, asset managers are looking to the advantages of single platform infrastructures and centralised data management systems, often replacing multiple systems inherited through acquisition. Streamlined platforms provide a consolidated picture of global exposure for reporting to investors and regulators and offer the flexibility and agility needed to launch new products quickly.

The operational challenges of data management are just one driver of the increasing trend toward outsourcing. Managers' preparedness to outsource extends right through the investment value chain, comprising not simply the back and middle office but increasingly front-office activities, too, where there may be scope to outsource virtually everything beyond core investment decisions.

In addition, outsourcing enables asset managers to delegate reporting and compliance burdens, as well as other key administrative responsibilities that may distract them from their core investment focus. Managers also recognise that they may need to invest substantially in expertise and technology to keep pace with evolving compliance requirements over the longer term. While the largest asset managers may have the scale to absorb this investment, other firms will seek to benefit from the resources and efficiencies of a third-party provider.

THE SCRUTINY ON DATA MANAGEMENT

With the financial crisis still fresh in their minds, investors expect to gain a consolidated picture of their assets, as our survey indicates – a task made more difficult by today's more complex global and derivatives-heavy investment portfolios. As a result, data management now plays a central role in the integrated solutions for assessing risk and performance that can help managers to maximise returns in a more risk-controlled environment. Far more than a record-keeping function, it has become an essential element on the frontier for investment analytics, addressing asset managers' need to drive enhanced returns.

As hedge fund managers consider outsourcing among their data management options, they also recognise that asset servicing organisations – with their geographic breadth and local expertise – represent valuable sources of insight into ways to streamline their operations or refine their product offerings.

Thus, whether supporting key reporting activities, helping to manage risk, or enabling managers to seek new markets and investors, servicing providers can become strategic partners for leveraging the value of data. ■

> "THE BENEFITS OF LEVERAGING THE SCALE AND EXPERTISE OF THIRD-PARTY PROVIDERS THROUGH OUTSOURCING PARTNERSHIPS LOOK INCREASINGLY ATTRACTIVE"

FOCUS ON

REGULATORY PLATFORMS

With a heightened regulatory environment, Joe Vittoria of Mirabella Financial Services talks to *HFMWeek* about the growing relevance of regulatory hosting companies

Joe Vittoria is founder and CEO of Mirabella Financial Services, part of The IMS Group. Mirabella provides regulatory hosting services for the alternative investment industry. Joe has 25 years' financial services experience, including several COO roles at hedge fund managers.

Like death and taxes, regulation is inevitable. Throughout the hedge fund industry, market participants are feeling the burden of complying with new regulatory introductions, which are imposing more than just a monetary cost on these businesses. As a result, regulatory hosting platforms are becoming more popular. Joe Vittoria, founder and CEO of Mirabella Financial Services (part of the IMS Group), talks to *HFMWeek* about the services being asked of such businesses – and how the practice is perceived.

Q HFMWEEK (HFM): WHAT IS A REGULATORY HOSTING COMPANY?

A JOE VITTORIA (JV): The simplest answer is that a regulatory hosting company is one where an FSA-authorised firm (the provider) allows its regulatory commissions to be used by another firm (the client). This means that the client can operate in the regulated market without obtaining direct authorisation from the local regulator. The important thing is that the provider in this case assumes the regulatory risk of the client and so it is critical that it has systems and control in place that can handle and mitigate such risk properly.

Q HFM: HOW HAS REGULATORY HOSTING CHANGED SINCE YOU STARTED PROVIDING THIS SERVICE IN 2004?

A JV: In the early days when we first started out, the driving force was keeping costs down as clients first and foremost wanted a cheaper way to get into the alternatives space. Since then, as the environment has become more complex (including more onerous due diligence and other demands being asked of fund managers), our clients are looking at more than just cost. When our clients come to us, they are mindful of a few key issues. For instance, the amount of time that senior management has to dedicate to compliance procedures has increased markedly in the past few years. The operational due diligence being extended by larger, institutional investors has also grown so much that smaller managers find it very difficult to pass the tests that are being set of them as a result. Being part of a platform where there is expertise in this respect and strong governance, like our independent risk and compliance functions, makes these smaller firms more attractive candidates to seed and early-stage investors.

> "THE AMOUNT OF TIME THAT SENIOR MANAGEMENT HAS TO DEDICATE TO COMPLIANCE PROCEDURES HAS INCREASED MARKEDLY IN THE PAST FEW YEARS"

Q HFM: WHAT IS THE TYPE OF FIRM THAT USES THIS SERVICE?

A JV: We have everything from corporate finance advisers, third-party marketing firms, M&A advisers, branches of foreign mangers, as well as our more traditional clients such as start-up investment managers. Many clients are keen to benefit from our expertise in this sector and the fact we are able to 'train' our clients to some degree. Because of our experience, they are going to learn how to run their own business in a high quality compliance and risk environment, which proves to be very valuable.

Q HFM: HOW DOES THE REGULATOR VIEW THIS BUSINESS?

A JV: The regulator's chief concern is to make sure that people are doing this for the right reasons and on close inspection regulators, lawyers, investors and other service providers realise it is beneficial for all sides. For example, take a new manager who has never run his own business – they come to us and will learn and understand the best ways to set out. We also help new managers understand the regulatory landscape and prepare them to take on this responsibility. The regulators and investors like the fact that such practices and standards become ingrained within the client's business practices. Our risk and compliance functions are separate and truly independent of the manager; we have no association with the performance or management fees these management firms are earning.

Q HFM: WHAT IS THE FUTURE OF REGULATORY HOSTING?

A JV: The big thing coming at us in 2013 is the AIFMD. It is going to change a lot of the aspects of the regulated environment that we have to live in, as an industry. With these new regulations, there will also be the opportunity to increase the range of products we can offer our clients. Compliance is becoming ingrained in so many other elements of a hedge fund manager's life that regulatory hosting is set to experience a lot of changes, so we are highly motivated to embrace these new opportunities. Mirabella has 20 appointed representatives and we are seeing a strong pipeline of new clients as we expect more to see this service as a benefit. ■

FUND ADMINISTRATORS

Thalius Hecksher, Global Head of Business Development // T: + 353 861 723233 // thalius@apexfunds.ie
Peter Hughes, Group Managing Director // T: + 44 (0)778 099 7609 // peter@apex.bm
Apex Fund Services is one of the world's largest independent fund administration companies with approximately $20bn of assets under administration, 24 offices and over 200 employees across the globe. The Apex Global Network is at the heart of the company's strategy of being located alongside its clients providing the highest levels of personalised services and through its real time service, give fund managers on the spot access to a unique portfolio management system. Apex services include fund set up via a number of possible platforms, portfolio valuations, fund accounting, shareholder services, corporate secretarial administration, directorships and listing sponsorship.

Honey Yee (Singapore) // T: 65 6818 9130 // sgmark@basizfa.com // **Sesh** // 9144 24362756 // www.basizfa.com
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Andrew Dougherty, Managing Director and Head of Alternative and Institutional Solutions - Securities Services North America // T: +1 212 841 2843
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Luxembourg: Barry Black // T: +352 266 448 37 // barry.black@careygroup.lu
Guernsey: Chris Trudgeon // T: +44 (0) 1481 737268 // chris.trudgeon@careygroup.gg // www.careygroup.gg
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Roger G. Buckley T: +356 2122 6608 // rbuckley@castlegatefundservices.com **Rob McIntyre** T+ 356 2122 6608 // rmcintyre@castlegatefundservices.com **//** First Floor Daniela House, 197 Marina Street,Pieta , PTA 9041, Malta

Castlegate Fund Services Ltd. is a full service fund administrator and provider of independent director services. Castlegate is domiciled in Malta and regulated by the Malta Financial Services Authority. Through a team of highly qualified and experienced individuals, utilizing leading fund administration systems, our aim is to provide a high-quality, customer-driven service, with an emphasis on responsiveness, attention to detail and competitive pricing. Castlegate specialises in providing services to small start-up funds, but also assists funds looking to transition from an existing third-party administrator or in-house service.

Gerben Oldekamp // T: +31 (0)334673898 // goldekamp@circlepartners.com // www.circlepartners.com //
Circle Partners, Utrechtseweg 31D, 3811 NA Amersfoort, The Netherlands.

Circle Partners is a financial services organisation specialised in rendering accounting and administration, shareholder and organisational services to investment funds established in a different number of jurisdictions and with diverse investment strategies. Our goal is to assist asset managers in building their investment fund and enabling them to concentrate on the asset management business through a process of outsourcing virtually all back-office functions to Circle Partners. Special care and attention is given to accurate and swift communication with the fund manager and shareholders to enhance client satisfaction and confidence and to assist in creating a sound reputation for the fund.

Jennifer Fischetti // jennifer.fischetti@wi.cibc.com // T: +1 345 914 9361 //
Edwin Machingambi // edwin.machingambi@wi.cibc.com // T: +1 345 914 9403
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Stuart Landucci, Global Head of Sales Alternative Fund Services // stuart.landucci@db.com // T: +1 617 217 6297 // www.dbafs.com
Simon Behan, Head of EMEA Hedge Fund Sales // simon.behan@db.com T: +44 (0)207 541 9296 // www.dbafs.com

Deutsche Bank's Alternative Fund Services offers a full range of administrative and banking services to hedge funds, fund of funds and other alternative investment vehicles - including private equity funds, infrastructure funds, property and real estate funds, discretionary and private funds, and insurance-linked funds - from start-up through growth to maturity. Services include fund administration, transfer agency services, trustee services, securities custody, cash management and specialist corporate services in a number of tax-neutral locations.

FUND ADMINISTRATORS

Rod White, Director, North America // T: +1 44127 88233 // rwhite@equinoxeais.com
Alan McKenna, Director, Europe // T: +353 1 854 8101 // amckenna@equinoxeais.com

Equinoxe is a premium boutique service provider founded in 2007 by experienced hedge fund administration professionals. Headquartered in Bermuda, with operational offices in Bermuda, Ireland, Atlanta and Mauritius, we are a full-service alternative investment fund administration company offering both traditional hedge fund administration and middle-office outsource products. With institutional technology and institutional procedures including a SAS70 Type 2 across all the offices, ultimate client service is provided with a bespoke operating model tailored to each client's needs.

Kristin Steele, Head of Marketing & Business Development // T: +1 704 927 1860 // M: +1 917 622 0172 // kristins@isisfunds.bm
Ede Conyers, CEO // T: +1 441 295 8282 // edec@isisfunds.bm

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Bermuda: **Robin Bedford**: rbedford@opusfundservices.com // T: (441) 234-0004
Chicago: **Stephen Giannone**: sgiannone@opusfundservices.com // T: (312) 281-5396
San Francisco: **Greg Knapp**: gknapp@opusfundservices.com // T: (415) 615-5281
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Laura Redman // T: +44 207 396 5569 // Laura.Redman@Orangefield.com
Sean Murray // T: +352 49 67 67 4417 // Sean.Murray@Orangefield.com // www.Orangefield.com

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Paraic Cosgrave, Head of Business Development, Fund Services – International // pcosgrave@sscinc.com // T: +353 86 834 0020 **Punit Satsangi**, Managing Director – Business Development EMEA // psatsangi@sscinc.com // T: +44 (0)20 3036 6805
1st Floor, 12 Arthur Street, London, EC4R 9AB // www.ssctech.com
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Rhonda McDeigan-Eldridge, Head Fund Services Business Development & CRM, Americas // T: +1 212 713 2178 // rhonda.eldridge@ubs.com
Ryan McGuire, Head Fund Services Business Development & CRM, Cayman Islands // T: +1 345 914 6046 // ryan.mcguire@ubs.com

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Bob Kern T:+1 800 300 3863 // bob.kern@usbank.com // 615 East Michigan St. Milwaukee, WI 53202 // www.usbfs.com

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Société Générale Securities Services (SGSS) // T:+00 (33) 01 56 37 37 39 // sgss.com@socgen.com // www.sg-securities-services.com

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FUND ADMINISTRATORS

Karine Seguin, Head of Business Development – Europe // T: + 44 (0)207 935 1503 // info@tridentfundservices.com
Brenda Mauro, Head of Business Development – North America // T: + 1 212 840 8280 // info@tridentfundservices.com
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ACCOUNTANTS

David Jarman, Partner //T: +44 (0)20 7556 1262 // jarmand@buzzacott.co.uk // **Peter Chapman, Partner** // T: +44 (0)20 7556 1415 // chapmanp@buzzacott.co.uk **Buzzacott LLP** // 130 Wood Street, London, EC2V 6DL // fs@buzzacott.co.uk // www.buzzacott.co.uk

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COMPLIANCE CONSULTANTS

ACA Compliance Group (Europe) Ltd // 11 Berkeley Street, Mayfair, London, W1J 8DS // www.acacomplianceeurope.com
Ron G Weekes, Chief Executive // T: +44 (0)20 7042 0500 // ron.weekes@acacomplianceeurope.com
Damon Zappacosta // 589 Eighth Avenue, 22nd Floor New York, NY 10018, USA // T: +1 212 868 5940
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CUSTODIAN BANKING

Paul Mifsud, Managing Director // paul.mifsud@sparkasse-bank-malta.com // 101 TOWNSQUARE, Ix-Xatt ta'Qui-si-Sana, Sliema SLM 3112
T: (+356) 21 33 57 05 // www.sparkasse-bank-malta.com
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INSURANCE COMPANIES

Exchequer Court, 33 St. Mary Axe, London EC3A 8AG // T: +44 (0)20 3207 6000 //
Richard Coello // rcoello@travelers.com // **Simon Holt** // sholt3@travelers.com

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INSURANCE BROKERS

Lockton Financial Risks, The St Botolph Building, 138 Houndsditch, London EC3A 7AG
Alex Burton Brown, Associate Director, DL: +44 (0)20 7933 2156 // Blackberry: 07919 397879 // Alex.Burton-Brown@uk.lockton.com
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ADVISORY

E Phillip Chapple, Executive Director // Phillip.chapple@kbassociates.co.uk // T: +44 (0) 203 170 8815

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PRIME BROKERAGE

Frank L Napolitani, Managing Director - Prime Services Group // 527 Madison Avenue, 6th Floor, New York, NY 10022 // T: 646.747.5228
Cell: 973.229.8126 // fnapolitani@conceptcapital.com // www.conceptcapital.com

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PRIME BROKERAGE

Kevin M. LoPrimo, Managing Director – Head of Hedge Fund Services and Equity Finance // T: +44 (0)20 7399 9461
Julian Parker, CEO // T: +44 (0)20 7399 9450

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Jerry Lees, Director - Quant EMS and Linear Investments // T: +44 (0)20 7292 3764 // jlees@quantems.com
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Patrick O'Keeffe, Head of London Markets // T: +44 (0)20 7911 2768 // pok@gva.co.uk
James Fairweather, Director, West End Agency // T: +44 (0)20 7911 2770 // James.fairweather@gva.co.uk

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Christopher Lawrence, partner // T: +44 20 7849 2968 // Christopher.Lawrence@Macfarlanes.com
William Sykes, partner // T: +44 20 7831 9222 // William.Sykes@Macfarlanes.com
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James Tinworth, Partner, Hedge Funds // T: +44 (0)20 7809 2082 // james.tinworth@shlegal.com
William Saunders, Partner, Head of Funds and Financial Services // T: +44 (0)20 7809 2138 // william.saunders@shlegal.com

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ACE IT Solutions, 515 Madison Avenue, New York, NY 10022 T: +646 558 5575 // www.aceits.net
Warren Finkel, managing partner // wfinkel@aceits.net // **Norm Steiner**, partner, director of technical services // nsteiner@aceits.net
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Capital Support Ltd, 3 Harbour Exchange Square, Docklands, London, E14 9GE // **Nigel Brooks,** Director // T: +44 (0)20 7458 1290 // nbrooks@capitalsupport.com// **Carrie Saunderson,** Marketing Manager // T: +44 (0)20 7458 1290 // csaunderson@capitalsupport.com

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Karim Ali, partner & co-founder // kali@cymba-tech.com // T: +44 207 220 6561
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Dave Taudevin // +44 (18) 6520 7607 // **Phoebe Armstrong**, business development associate // T: +44 (20) 3178 6660
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Bryan Young // 7th Floor, 286 Madison Avenue, New York, NY 10016-6368 // T: +1 866 484 6630 // bryan.young@globalrelay.net
Robert Powell // 1 Cornhill, London EC3V 3ND // T: +44 (0) 203 139 9064 // robert.powell@globalrelay.net

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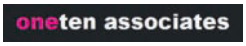

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