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OPALESQUE'S EMERGING MANAGER MONITOR

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Editorial

Benedicte Gravrand

Opalesque New Manager is edited by Benedicte Gravrand. Based near Geneva, Benedicte also writes exclusive stories and special reports for Opalesque's daily hedge fund publication, the Alternative Market Briefing (AMB), and occasionally moderates Opalesque Roundtables. Benedicte is perfectly bilingual (French/English) and has lived in Paris, Geneva and London. She obtained a BA (Honours) in Philosophy from the University of London, worked in the publishing sector, the hedge fund industry and joined Opalesque in 2007.

Dear Opalesque Reader,

Welcome to the January 2013 issue of *New Managers*, Opalesque's monthly monitor of new, emerging and re-emerging alternative fund managers. This is the 12th issue, and also the publication's first-year anniversary.

In **Statistics, Peter Urbani** looks at the impact of different objective functions on the out-of-sample performance of optimised strategy allocations. In **Focus**, we ask several new and established fund managers if they think we are all global macro investors now – since we cannot ignore the extent of the geopolitical and financial difficulties that lie ahead. They don't all agree. Fraser McKenzie says in the **47N Series** that small managers may fare better in a stressed market created by central bank actions. In **The Marketing Challenge**, Bryan Johnson lays out the four critical areas to focus on to get through allocators' screening process. Dan Barnett of Revere Capital in **Seeders' Corner** talks about the negative selection process and the psychology of motivation. And Ed Gouldstone of Linedata elucidates modular solutions for budget-conscious fund managers in **Servicers' Spot**.

This month's report ends with the usual recapitulation of recent maiden fund **Launches** and related matters, a review of the latest news, views and findings relevant to the emerging fund space in **News & Perspectives**. And in **Profiles**, two global macro managers, LindenGrove and AlphaParity, talk about their brand-new funds; and our Asia-based reporter Komfie Manalo interviews Ascendiant Capital on their discretionary opportunistic trading fund and Iken Capital on their commodity fund.

Don't forget, as a subscriber, you can access past issues of New Managers in our Archive here: www.opalesque.com/Archive-New-Managers.html.

Please do contact me if you have any related news or views, or if you want to send a contribution.

I hope you enjoy the twelfth issue of *New Managers.*

Benedicte Gravrand
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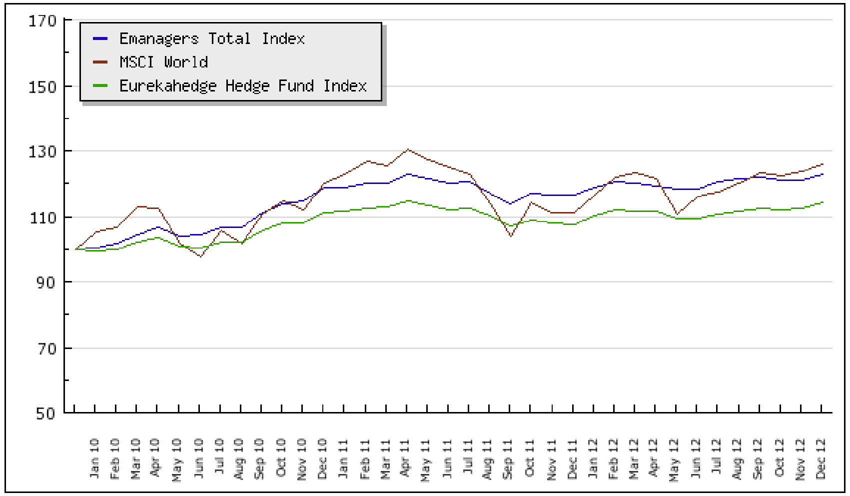
Gravrand@opalesque.com

If you want your fund to be included in our **Emerging Managers database**, please register it here www.emerging-managers.com/index.php or send your fund's details to db@opalesque.com. If you wish to have access to that database, please subscribe here: www.emerging-managers.com/pricing.html.

Emanagers Total Index up 1.37% in December (+5.27% in 2012)

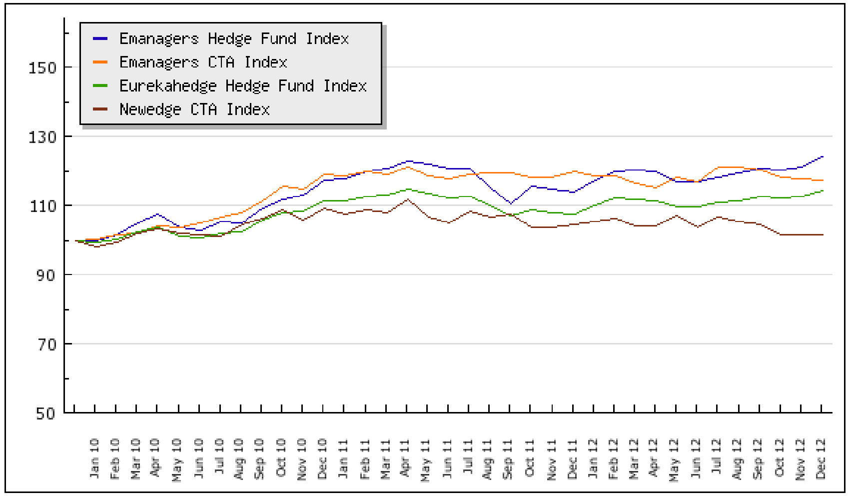
Emerging manager hedge funds and managed futures funds performed well in the last month of 2012, according to a first estimation based on the data of 300 funds listed in Opalesque Solutions' Emanagers database.

The Emanagers Total Index gained 1.37% in December and 5.27% in 2012. Estimates for November and October were corrected to +0.18% and -0.84%, respectively. Since inception in January 2009, the index posted compounded returns of 65%.



Emerging manager hedge funds posted excellent results last month, while managed futures strategies saw small losses: The Emanagers Hedge Fund Index gained 2.52% in December, bringing its 2012 result to 9.09%. The Emanagers CTA Index lost 0.3% and is down 2.12% for the year.

Emerging managers thus outperformed their established peers in 2012 (Eurekahedge Hedge Fund Index: +6.18%, Newedge CTA Index: -2.84%), but were unable to beat the global stock market, which gained over 13%, according to the MSCI World Index.



Stock markets continued their November rebound last month, and all hedge fund strategies (except for short sellers and CTAs) were able to profit in this environment:

* Directional strategies saw significant gains, as long-bias equity funds rose 3.55% and long/short equity funds gained 2.16%. Global macro hedge funds were up 2.62%, followed by event-driven (+2.32%), multi-strategy (+1.46%) and relative value hedge funds (+0.59%).

* For the year 2012, the ranking is led by event-driven (+16.30%) and directional strategies (equity long-bias: +12.85%, equity long/short:

+10.83%), which were able to deliver double digit returns.

Over the last 12 months, Opalesque calculated MSCI-correlation coefficients of 82% for Emanagers hedge funds and -39% for Emanagers CTAs, resulting in equity-market betas of 33% and -17%.

Index	Dec	2012	2011	2010	2009	Volatility	Beta (bm=MSCI)
Emanagers Total Index	1.37	5.27	-1.79	18.73	34.51	3.72	16
Emanagers Hedge Fund Index	2.52	9.09	-2.83	17.07	37.59	5.21	33
Emanagers CTA Index	-0.30	-2.12	0.51	19.15	20.52	5.65	-17
Eurekahedge Hedge Fund Index	1.46	6.18	-3.13	11.16	20.59	3.85	24
Newedge CTA Index	0.08	-2.84	-4.43	9.26	-4.31	6.98	-21
MSCI World	1.75	13.18	-7.61	9.40	27.07	13.10	100

- Florian Guldner, Opalesque Research

Funds that have recently joined the Opalesque Emerging Managers database

Fund name	Fund Strategy	Manager Location	Fund AuM	Fund Launch Date
ElevenFund	Multi strategy	Toronto, Canada	undisclosed	Nov-11
Humber Global Opportunity Fund	Equity long/short	Toronto, Canada	undisclosed	Apr-12
Scale Opportunities Fund	Event driven	Toronto, Canada	undisclosed	May-11
Teraz Fund	Equity long/short	Toronto, Canada	undisclosed	Jan-12
Heaps Multi Strategy Fund	Multi strategy	Toronto, Canada	undisclosed	Mar-12
Tusker Investment Fund Offshore	Global Macro / Commodities	Chicago, U.S.	undisclosed	Aug-12
Totus Alpha Fund	Equity long/short	Mosman, Australia	$517.32	Apr-12
Hyaline Capital Quantitative Fund, LP	CTA	New York, U.S.	undisclosed	Oct-09

The Opalesque Solutions Emerging Managers Database is an extremely niche and specialised database of Emerging Hedge Fund Managers, and access is available for eligible investors such as Funds of Funds, Family Offices, Pension Funds and UHNWI globally as well as academia and research analysts.
For the sake of this database, we define an asset manager as "emerging manager" if,

1) The firm is less than 48 months old and
2) The AUM of the firm at the time of the firm's inception is less than $600 million.

If you want your fund to be in the Emerging Managers Database, please send your details to our database team at: db@opalesque.com

Peter Urbani

is the former CIO of Infiniti Capital, a now defunct Hong Kong-based Fund of Funds group. Prior to that, he was Head of Quantitative Research for Infiniti, Head of Investment Strategy, Head of Portfolio Management, Head of Research and Senior Portfolio Manager for number of buy-side firms. He started out in stock-broking as an open outcry floor trader in the late 1980's. Some of his VBA code was included in Kevin Dowd's Measuring Market Risk and he specialises in Risk Management and Portfolio Construction.

Co-Skewness worth 290bp

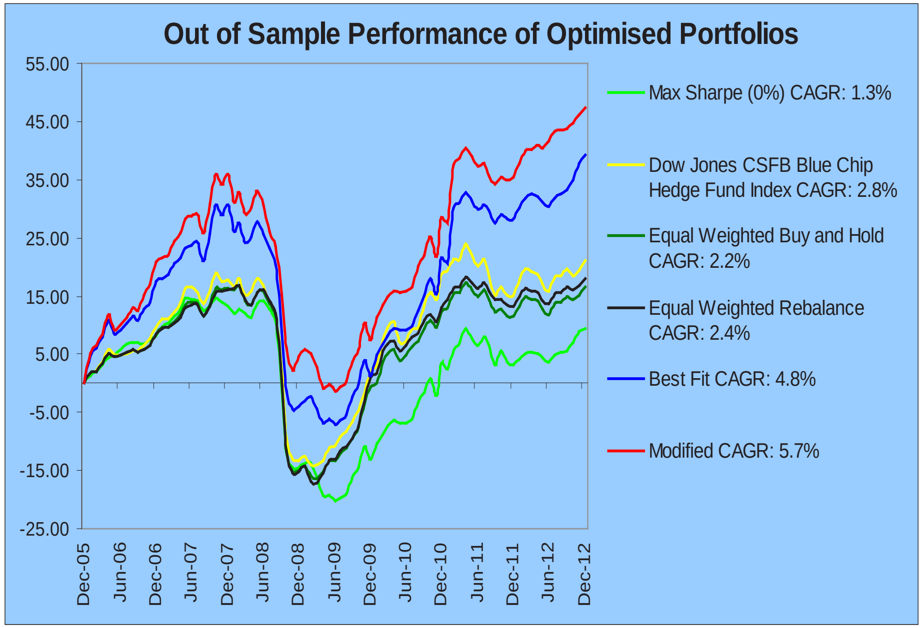
This month we look at the impact of different objective functions on the out-of-sample performance of optimised strategy allocations, and in particular of the important contribution of co-skewness to the overall skewness of the portfolio for those who care about higher moments.

$$\text{coskew} = \frac{\mathrm{E}[(r_i - \mu_i)(r_m - \mu_m)^2]}{\sqrt{\mathrm{var}(r_i)\mathrm{var}(r_m)}},$$

We show that the inclusion of higher moments to your portfolio construction process is worth +290 bp per annum over and above the performance of a broad Hedge Fund Index (Dow Jones Blue Chip Index). We also show that optimal weights for those who prefer higher odd moments (Mean, Skew etc.) are generally higher in the direction of those assets exhibiting positive relative skewness, or co-skewness, with either a benchmark or the portfolio itself.

To illustrate, we conduct out-of-sample back testing on the 10 Main Dow Jones CSFB Blue Chip Hedge Fund Strategy Indices from Jan 2006 to Dec 2012. The initial look-back period is 24 months and rebalancing takes place bi-annually.

Objective functions used include; maximising the Sharpe ratio, which is equivalent to the classical minimum variance portfolio of Markowitz's MPT, Maximising the ratio of the CAGR to both the normal, best fit and modified conditional value at risk (CVaR) or Expected Shortfall. This is sometimes called the STAR Ratio. As a control we compare the results to the benchmark index, and both a buy and hold and rebalanced equally weighted index.



The results show that the Modified and Best Fit methods outperform the Minimum Variance / Maximum Sharpe ratio method, the Benchmark Index and both of the equally weighted methods by some margin.

Over the 7-year period, the Modified objective function generates an out-of-sample CAGR of +5.7% and the Best Fit +4.84% versus the +1.3%, +2.2%-2.4% and +2.78% of the Minimum Variance, Equally weighted and Benchmark indices respectively.

Of the two methods, we slightly prefer the Best Fit methodology to the Modified method because it produces more diversified portfolios and more conservative Value at Risk numbers.

In the table to the right, you can see that both the Best Fit and Modified methods produce less negatively skewed outcomes because they both actively seek to address the asymmetry which the mean variance approach ignores. Indeed it is the very volatility averse nature of the Minimum Variance approach that causes it miss out on the upside volatility in some strategies and during some periods such as the market recovery post 2008.

This is reflected in the %Pos and % Neg numbers where the two better methods have between 5 – 10% more positive returns than the minimum variance (Max Sharpe) method and the index itself.

	Max Sharpe (0%)	Equal Weighted Buy and Hold	Equal Weighted Rebalance	Dow Jones Blue Chip HFI	Best Fit	Modified
HPR	9.50%	16.50%	17.95%	21.16%	39.17%	47.25%
CAGR	1.31%	2.21%	2.39%	2.78%	4.84%	5.68%
Annual Return	1.64%	2.50%	2.69%	3.07%	5.11%	5.89%
Annual SD	8.22%	7.79%	7.95%	7.98%	8.65%	8.37%
Mean	0.14%	0.21%	0.22%	0.26%	0.43%	0.49%
Std Dev	2.37%	2.25%	2.30%	2.30%	2.50%	2.42%
Skew	-2.25	-3.06	-3.08	-2.26	-1.16	-0.52
Kurtosis	9.63	14.34	14.83	8.96	5.14	2.26
Max Drawdown	-30.53%	-28.46%	-29.05%	-27.58%	-28.80%	-27.40%
% Pos	60.71%	66.67%	69.05%	64.29%	67.86%	69.05%
% Neg	39.29%	33.33%	30.95%	35.71%	32.14%	30.95%
Normal VaR	-3.76%	-3.49%	-3.55%	-3.53%	-3.68%	-3.49%
Modified VaR	-4.60%	-4.40%	-4.47%	-4.38%	-4.18%	-3.72%
Best Fit VaR	-4.29%	-3.99%	-4.06%	-4.04%	-4.18%	-3.72%
Normal CVaR	-4.76%	-4.43%	-4.51%	-4.50%	-4.73%	-4.50%
Modified CVaR	-8.07%	-7.72%	-7.98%	-7.49%	-7.38%	-5.83%
Best Fit CVaR	-6.16%	-5.76%	-5.87%	-5.86%	-7.38%	-5.83%
Distribution	Gumbel (Min)	Gumbel (Min)	Gumbel (Min)	Gumbel (Min)	Modified Normal	Modified Normal

If one looks at the current effective weights (Jan 2013 weights) of the different methods you can gain some insight into the strengths and weaknesses of the different methods and of the index itself.

The very volatility-averse nature of the Minimum Variance method pushes up its allocations to the lowest volatility strategies such as Multi-Strategy and Fixed Income Arb.

Similarly if you look at the benchmark index weights themselves you can see the lagged effect of legacy allocations to yesterday's winners such as Event Driven and Managed Futures.

By contrast both the Best Fit and Modified method seek to up weight those strategies that have been showing the most positive co-skewness relative to the index or portfolio. Whether this represents only momentum capture or some evidence of skill is not known but given the relatively low turnover and high levels of autocorrelation in hedge fund strategies, these effects do seem to persist for long enough for some value to be extracted.

Current Effective Weights as at 1 Jan 2013

	Max Sharpe (0%)	Equal Weighted Buy and Hold	Equal Weighted Rebalance	Dow Jones Blue Chip HFI	Best Fit	Modified	2012 CAGR	Std Dev	Co-Skew ness 1yr	Co-Skew ness 2yr
Convertible Arbitrage	9.0%	11.3%	9.9%	2.0%	50.0%	50.0%	7.9%	2.9%	0.20	-0.11
Dedicated Short Bias	8.5%	5.9%	9.1%	1.0%	6.9%	9.0%	-16.2%	12.5%	0.27	0.46
Emerging Markets	0.0%	12.2%	10.7%	9.0%	4.2%	0.0%	15.2%	12.0%	-0.26	-0.36
Equity Market Neutral	1.7%	6.3%	10.0%	3.0%	6.1%	0.0%	4.6%	6.8%	-0.41	-0.44
Event Driven	0.0%	10.8%	9.9%	17.0%	0.0%	0.0%	2.2%	5.2%	0.09	-0.45
Fixed Income Arbitrage	24.7%	7.7%	10.0%	6.0%	7.0%	0.0%	7.7%	0.9%	0.58	-0.42
Global Macro	6.1%	13.5%	9.8%	13.0%	5.4%	13.4%	-0.7%	4.5%	0.04	0.15
Long/Short Equity	0.0%	8.6%	10.3%	17.0%	5.3%	0.0%	10.6%	8.6%	-0.21	-0.39
Managed Futures	0.0%	11.9%	9.5%	19.0%	4.2%	0.0%	-3.4%	8.3%	0.23	0.27
Multi-Strategy	50.0%	11.9%	10.6%	13.0%	10.9%	27.7%	15.5%	3.5%	-0.21	-0.53
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%				
Dow Jones CSFB Blue Chip Hedge Fund Index							5.3%	4.3%	-0.02	-0.32
Emanagers Index							5.3%	3.7%	0.18	-0.30

As an interesting aside the Effective Weight table on the previous page also shows the Opalesque Emanagers Index has positive co-skewness relative to the Dow Jones CSFB Blue Chip Hedge Fund Index suggesting it would be a complimentary asset to hold in a portfolio.

Best Fit

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12m
2012	1.52%	1.26%	0.47%	-0.26%	-0.75%	-0.60%	1.09%	0.61%	0.52%	1.34%	2.02%	1.03%	**8.54%**
2011	-0.51%	7.59%	0.79%	1.25%	-1.03%	-1.07%	0.57%	-0.80%	-1.62%	1.10%	-0.62%	0.07%	**5.53%**
2010	3.46%	1.91%	1.27%	0.99%	-0.19%	0.06%	0.65%	2.36%	2.33%	2.51%	-2.20%	5.33%	**19.89%**
2009	0.92%	0.78%	-2.23%	-2.38%	0.71%	-0.86%	0.73%	0.92%	3.34%	2.20%	4.16%	-2.57%	**5.60%**
2008	-3.54%	1.22%	-2.64%	0.78%	2.12%	-1.76%	-1.84%	-2.33%	-9.44%	-9.59%	-2.94%	0.34%	**-26.53%**
2007	0.48%	0.52%	1.61%	0.89%	1.40%	0.34%	0.27%	-2.42%	3.67%	4.06%	-1.25%	1.26%	**11.20%**
2006	4.53%	1.50%	1.69%	2.81%	-2.29%	0.59%	1.17%	1.02%	-0.49%	1.75%	1.07%	3.00%	**17.47%**

Dow Jones Blue Chip Hedge Fund Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
2012	2.32%	1.63%	-0.46%	-0.29%	-1.51%	-0.91%	1.90%	0.28%	0.95%	-0.87%	0.75%	1.47%	**5.31%**
2011	0.63%	1.56%	0.09%	2.00%	-1.47%	-1.49%	0.93%	-2.30%	-2.90%	1.31%	-1.26%	-0.10%	**-3.08%**
2010	1.35%	4.02%	2.04%	0.89%	-3.19%	0.13%	2.05%	0.19%	3.48%	1.94%	-1.10%	3.83%	**16.52%**
2009	0.73%	-1.54%	-0.03%	0.88%	2.33%	0.60%	1.59%	1.04%	1.90%	1.89%	3.25%	3.61%	**17.39%**
2008	-0.97%	1.07%	-2.39%	0.62%	1.89%	-1.08%	-2.57%	-1.63%	-8.70%	-11.35%	-4.09%	-0.03%	**-26.31%**
2007	1.23%	0.10%	0.96%	1.61%	2.04%	0.31%	-0.85%	-1.81%	1.93%	2.64%	-1.08%	0.20%	**7.42%**
2006	1.86%	0.25%	1.61%	1.86%	-0.79%	-0.10%	0.27%	0.54%	-0.13%	0.95%	1.14%	1.84%	**9.65%**

Modified

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	12m
2012	1.84%	1.40%	0.33%	0.37%	-0.24%	0.80%	1.25%	0.11%	0.17%	0.62%	1.11%	0.67%	**8.74%**
2011	-0.52%	7.62%	0.78%	1.24%	-1.04%	-1.09%	0.22%	-1.55%	-0.99%	0.86%	-0.42%	0.42%	**5.36%**
2010	3.46%	1.91%	1.27%	0.99%	-0.19%	0.06%	0.69%	3.09%	1.61%	2.60%	-2.83%	5.60%	**19.56%**
2009	1.21%	-0.68%	-2.33%	-3.44%	0.61%	-1.08%	0.73%	0.92%	3.34%	2.20%	4.16%	-2.57%	**2.81%**
2008	-3.54%	1.22%	-2.64%	0.78%	2.12%	-1.76%	-3.50%	-2.04%	-6.61%	-8.10%	-3.50%	2.26%	**-23.05%**
2007	0.44%	0.53%	1.81%	1.24%	1.79%	0.46%	0.27%	-2.42%	3.67%	4.06%	-1.25%	1.26%	**12.34%**
2006	5.06%	1.41%	1.80%	2.98%	-2.26%	0.82%	1.15%	1.40%	-0.38%	2.45%	1.47%	3.46%	**20.96%**

Are we all global macro investors now?

Source

Last month, an emerging manager who runs a value-based long/short equity hedge fund told Opalesque that no matter how much a 'value investor' or 'individual stock picker' thinks he or she can tune out market noise and focus on individual companies' fundamentals, we are all, at this point in history, macro investors. This is because we cannot ignore the enormity of the geopolitical and financial troubles that lie ahead and the interconnectedness of the world's financial systems.

Opalesque collected reactions about that view from three emerging fund managers, two global macro veterans and a service provider.

Part I – So··· are we all macro investors now?

The answer was generally "yes and no." The question itself is indeed a little too black and white. Most, however, agreed that ignoring the macroeconomic environment now, like it was done in the last decade, should be considered a thing of the past.

Andrew Rozanov

Andrew Rozanov, managing director at Permal Group, a global asset management group specialising in global macro strategies, has just edited and published a book called "Global Macro: Theory and Practice" (195 pages, Risk Books). (*A review of the book was recently published in Opalesque's Alternative Market Briefing here*).

"Are we all global macro investors now?" is a question he runs into occasionally, he told Opalesque. However, he added, people in the industry tend to take a much more nuanced view of that matter.

His direct answer to the question is "no."

"The simple reason is that if your expertise as a hedge fund manager has been, for example, long/short European stocks, and all of a sudden you change, just because we happen to be in a top-down macro driven environment with its risk-on / risk-off situation, then I'd say it's a problem," he explained.

"If I were an investor, and I had chosen you to pick stocks for me and extract alpha based on the classic long/short

equity mandate, I should be very worried and raise a lot of red flags if I saw you moving from stock selection to market timing and trying to ride the waves based on your top-down market analysis."

"In that sense, a long/short equity manager should stick to his or her guns and remain a long/short equity manager."

According to Rozanov, many now believe that global macro has a bigger role to play. During the 'Great Moderation' years of the previous decade, numerous investors discounted the big macro picture, he said. But the crisis taught us that no matter what strategy you run – including long/short equity – you have to pay more attention and you have to incorporate macro considerations in your portfolio.

"For example, you may want to be more or less defensive in your positions," he added; "also, the global macro picture may influence your sector rotation decisions, etc."

"Global macro factors have certainly become much more prominent and they should be taken into account more than they used to be before the crisis," he noted. "But I think it is a far cry between this situation and the notion of everyone suddenly becoming a global macro investor."

Vijai Mohan

Vijai Mohan, portfolio manager of a four year old concentrated long/short equity fund with top down views at San Francisco-based Hyphen Fund Management LLC, thinks that macro has always been an important part of any investment approach.

"If you take something as mundane as single stock investing," he told Opalesque, "there is a lot of research that suggests that the majority of forces from an economic perspective that affect any individual stock are actually more or less macro in nature. And those include industry criteria, issues related to risk sensitivity, like beta, and other factors like where the particular asset is domiciled. These are all classically macro factors that one may choose to ignore if one chooses to do so."

He explained that investing in general has become highly specialised in the past 10 to 20 years, with many analysts looking at "the most microscopic elements of any sector or security that you might think of."

This shows that investment strategies have chosen to ignore the macro environment and favour a micro perspective. But this has "by definition decreased the returns of being very specialised."

Mohan believes there is an opportunity for investors to think more macro and more top-down.

"And that's precisely what I have oriented my fund to do, to specifically look for very large return situations in highly liquid securities. And the most important aspect of this approach is employing top-down thinking." *(We recently wrote about the fund in Opalesque's Alternative Market Briefing here.)*

Borut Miklavcic, founder and CIO of LindenGrove Capital, a discretionary global macro fund manager based in London and founded in late 2012, thinks that the current environment requires one to have an appreciation for macro and policymaker decisions – no matter what strategy one trades.

An unstable financial system, very large tail risk, and very dramatic policymaker responses will tend to drive a lot of asset classes. And not just in a directional basis but also in terms of relative values.

This trend has been more pronounced since 2008 "than before where you had more bounded markets and you could trade certain strategies which would be uncorrelated to the general liquidity macro cycle," he told Opalesque. The liquidity cycles were not as pronounced then. For example, when trading relative value in the last few years, he explained, one has to think of the current liquidity cycle, since if we are in a de-leveraging cycle, it is best to avoid relative value exposure.

"So in that sense, yes, regardless of what strategy you follow, you need to understand where you are in that policymaker or liquidity cycle at any given time in terms of how you position your portfolios," he concluded. "And the positions which appear completely uncorrelated to the market are actually quite correlated because of the liquidity component." *(We report on LindenGrove's new launch at the end of this publication, in* ***Profiles****)*

Ian Plenderleith

Ian Plenderleith, chairman of BH Macro Ltd, a London-listed fund launched in 2007 that invests in the ordinary shares of Brevan Howard Master Fund Ltd, told Opalesque that as there are a lot of hedge funds and a lot of strategies, asking about them all "does not seem to be a very sensible approach." Some strategies are going to work better in some environments, he said. "It is certainly true that all are impacted by the macro-economic environment, to a greater or lesser degree, but some of them are obviously much more involved in it than others."

But macro funds, such as BH Macro, are very affected by the nature of the macro-economic environment, he noted. BH Macro's strategy is based upon a total view of the major macro-economic movements in exchange rates, interest rates and bond yield curves, and tries on a daily basis to identify market anomalies or mispricing.

According to Plenderleith, the past year was characterised by markets which were rather unexciting. Bond yields were low, exchange rates were not moving a great deal because there were few movements in the macro environment, and the global economy seemed sluggish and fragile, he noted. "Therefore there wasn't much scope in the market to change its view in response to news and create questions about whether it's priced at the right level."

Plenderleith believes it is beginning to change: "We saw a major economic downturn five years ago, combined with a major global financial crisis. When you put this together, it takes a lot longer to recover. It takes three to five years to recover from a typical recession. If you combine that with a financial crisis, you're probably talking about five to 10 years to recover. We are half way along that path of recovery. It is very fragile, very difficult."

So we may this year see some pick up in optimism, activity and risk-taking, which would produce more movement in macro-economic variables and therefore a better environment for macro funds.

"Whether that will extend to other funds and other strategies, I don't know," he concluded. "It depends on the nature of their strategy. But for macro funds, the prospects of this year are better."

Steve Gross

According to Steve Gross, New York-based fund manager of the newly launched global macro fund AlphaParity, there is no way to escape the effects of macro risks today.

Even a single stock deep value fundamental manager who says his *investment decisions are not influenced by macro considerations still has to make a number of operational decisions that are implicit macro bets.*

"Which counterparty is too big to fail and where he should custody his assets is just as potentially material a bet on macro risk as politics and trading the euro," he told Opalesque. "Just ask anybody with assets at Lehman Brothers." *(We recently reported on AlphaParity's new launch in Opalesque's Alternative Market Briefing here. This article is reproduced at the end of this publication, in* ***Profiles****).*

Part II – Backdrop

What is the global macro strategy?

Along with equity long/short, global macro used to be the most popular hedge fund strategy in the 80s and 90s. Global macro has a long history, and well-known traders. George Soros famously employed a global macro strategy when he sold pound sterling in 1992 at the time of the European Rate Mechanism debacle.

Such funds invest globally (macro strategies invest locally) in equity, interest rate, commodity and currency markets, often with leverage, using futures or options markets. They can also offer good liquidity and uncorrelated returns.

There are many types of global macro investment specialties, namely: managed futures, active currency, fundamental macro, rates, active commodities. Style drift is built into the global macro mandate, claims Andrew Rozanov of Permal Group in his new book "Global Macro: Theory and Practice". Sub-strategies, he explains, can be mapped along the following three dimensions:

1. discretionary versus systematic,
2. fundamental versus technical, and
3. trend following (momentum) versus relative value (mean reversion).

Global Macro strategies typically do well in times of a sustained increase in the volatility of currencies, interest rates, commodities and equity markets - and when markets are driven by overall macro-economic themes rather than by the fundamentals of individual securities, says John Casano of Financial Diligence Networks LLC in the same book. So for this reason, investors have shown an increased interest in global macro hedge funds since 2009.

How global macro is faring now

It did fairly well in December 2012. The Hennessee Global Macro index increased 2.29% (+6.21% in 2012); and the Hennessee Hedge Fund Index gained 1.45% (6.99% YTD). Whereas the HFRI Macro Total Index gained 0.82% that month and -0.37% in 2012 – one of the six HFRI indices that lost out last year (the HFRI Fund Weighted Composite Index was up 6.22% in 2012). And the Emanagers Index's global macro sub-index was up 3.61% YTD (to November' 12).

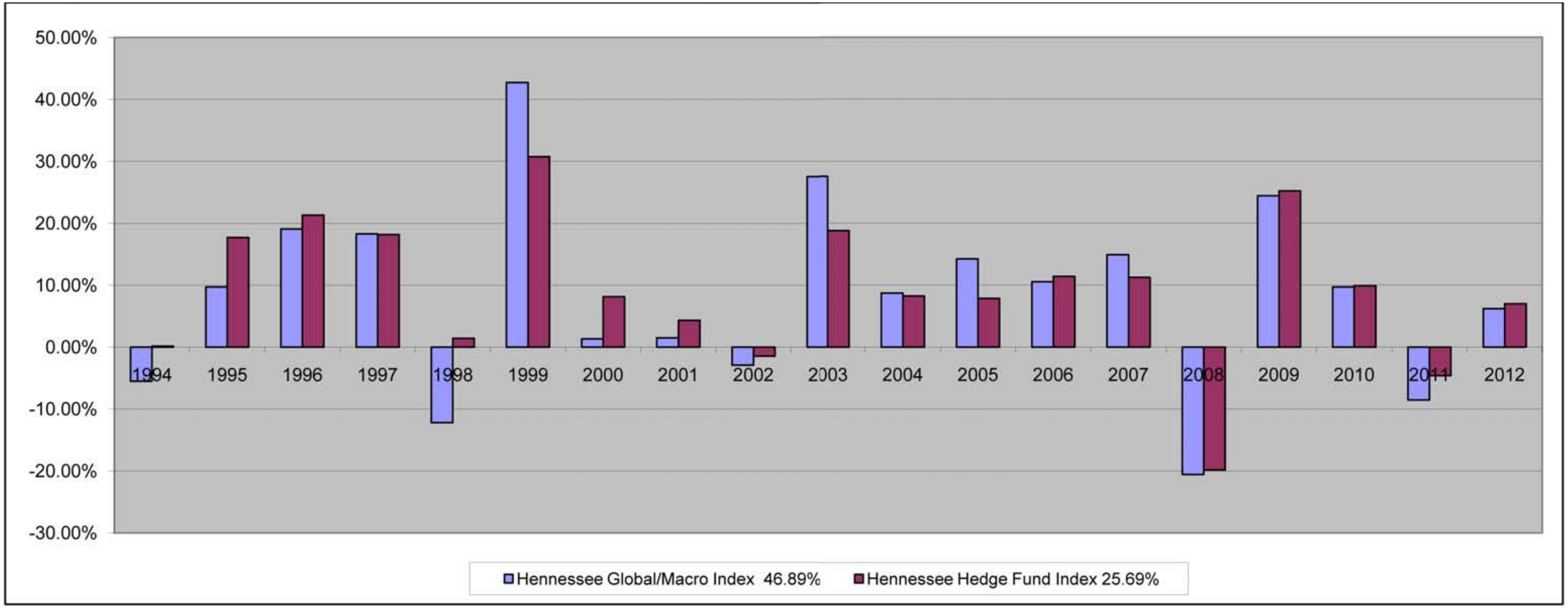
Current cycle

Experts seem to agree that there are few opportunities out there for global macro managers. But they could profit if they make their funds ready for a regime shift or a low probability event.

Now is a unique global cycle, according to some, with sub-trend growth, policy exhaustion, excess liquidity, macro-economic uncertainty, low financial market volatility and regulatory uncertainty. Opportunities for traditional global macro investment styles are fewer and more difficult to identify, according to Mark Farrington, managing partner at Macro Currency Group (MCG), a $9bn global currency and macro fund manager. However, he said during a recent Terrapinn conference in Zurich, over and under valued assets create opportunities for mean reversion, and single country macro-economic themes are becoming relatively more interesting. Furthermore, he explained, these episodes of low global macro opportunity are characteristic of the unstable equilibrium that precedes regime shifts. So global macro or fundamental discretionary style managers should be prepared and ready to deploy risk capital for the coming shift.

According to Brian Lawson, chief global economist at Exclusive Analysis Ltd., a specialist intelligence company based in London:

In the last 20 years, global macro hedge funds did not always do as well as the average, according to data from Hennessee:



In a slow growth, difficult global environment, the ability to identify and trade on high impact, low probability events will be key to hedge fund outperformance.

The Eurozone is going through a slow and painful adjustment, which will lead to rising political pressure, he explained during the same conference. As for the financial sector, its recovery is slow and it is facing major regulatory challenges. The next few years will see a complex adjustment phase, and not just in the EU. Lawson expects there will be increased risk of protectionism, economic nationalism, taxation, contract renegotiation and expropriation. Furthermore, the global monetary expansion means there will be a potential impact on real goods.

"In an environment of slow growth, identifying remote risk events may be the key to a hedge fund ´ s ability to succeed. In a general world of low hedge fund returns and excess competition, the right 'big win' could transform the viability and prospects for a particular fund," he told Opalesque.

Ed Gouldstone, head of Hedge Fund Product Management for Linedata, an asset management service provider, told Opalesque that his firm has been doing a lot more work in the area of global macro in the last couple of years.

Global macro fund managers face particular challenges in that, to take advantage or test their investment hypothesis in global macro level market drivers, they must often use derivatives.

Derivatives include interest rate derivatives, swaps against global market indices, etc.he said. And then there is the other challenge of trading them "in terms of having relationships with brokers, having different market data needs to value even simple interest rates swaps."

Managers have to be "able to collect and aggregate all that market data, be able to operationally manage the trading of their own derivatives, especially when you have got regulations pushing everyone towards central clearing," he added. Around 15% to 20% of Linedata's client base is actively pursuing global macro strategies. *(Ed Gouldstone is also featured in this publication's **Servicer' Spot** column).*

-- *Benedicte Gravrand*

The Pied Piper of Hamelin

Fraser McKenzie

This article was authored by Fraser McKenzie, Manager Partner, 47 Degrees North Capital Management, a specialist alternative investment firm, and a pioneer in early-stage hedge fund investing. It was selected as one of three successful candidates out of 97 applicants to manage the emerging hedge fund managers program at CalPERS.

47N's objective of this series of articles is to discuss and inform on issues relevant to emerging managers, including corporate governance and investing.

The Pied Piper of Hamelin

The Pied Piper of Hamelin is the subject of a 16th century German legend. A piper dressed in colourful clothing and claiming to be a rat-catcher, promises to cure the town of Hamelin's rat infestation by luring them away with the music from his magical pipe. However, when the rats are safely gone the town's mayor refuses to pay the Pied Piper and the story takes a grim turn. He takes his revenge by this time luring away the town's children with his music - never to return.

Fast forward to the 21st century; the Federal Reserve and other major central banks around the world continue to ward off economic recession with their zero-interest rate music and eye-catching quantitative easing. The aim of policy makers is to push investors further and further out the risk spectrum, well beyond what one wag called the "return-free risk" of government bonds, into riskier assets with historically very low returns. This has worked. Investors have piled into high-yield bonds and even the U.S. sub-prime mortgage bonds that were so toxic in 2008 they nearly brought down the world's financial system.

Central banks have made this move into riskier assets safe by promising to maintain zero interest rates for the foreseeable future and, so far, the promise of the Pied Piper has been kept – the rats are nowhere to be seen and the townspeople are happier. But what price the Piper?

In today's storyline more risk-averse investors are asking the same question and the answer seems quite clear – the price will be higher inflation. After all, this is the stated aim of several leading central banks including the Fed and the Bank of Japan. However, higher inflation erodes the very assets investors are being encouraged to buy. Moreover, bond yields are at record lows; German healthcare company Fresenius recently issued a record-breaking bond with an 8-year maturity and a coupon of 2.875% - a new low in the European high yield market. Ford Motor's credit holds the U.S. record for sub-investment grade bond issue with a 2.75% coupon for a 3-year bond. So what happens when investors in these bonds no longer accept the price they are being asked to pay – especially when economic growth and inflation cause the tide of lower interest rates to end and normalization takes place?

To switch analogies and paraphrase Warren Buffet; who will we find not wearing shorts when the low interest rate tide recedes? It's unlikely to be the investment banks, standing up to be counted, heroically buying unwanted expensive bonds as panicky asset managers see the first signs of interest rates moving upward and want to sell. The investment banks matter because they have traditionally provided liquidity - the lifeblood of the capital markets - via market-making to investors, underwriting and inventorying of bonds. The ability of corporates to raise money via the capital markets is directly linked to the willingness of investors to buy who rely on these services of the investment banks. While investor buying and bond underwriting have been at all-time highs, the inventorying part of the liquidity mechanism has seized up. According to the Federal Reserve Bank of NY, primary-dealers' inventory of US corporate bonds has dropped by close to 80% since reaching a record level in 2007. Given the massive volumes of corporate issuance – corporate bond sales (to investors) have surged $3.3 trillion in 2012 to match an incoming tide of buying - this lack of inventorying spells trouble ahead. Who will have the capacity to buy back these bonds if buyers turn to sellers?

Now, coming to the point of this story; one group of likely short-wearers will be the smaller, emerging manager hedge funds. Why? Because, with smaller amounts of assets under management, these funds will find it much easier to sell their bond positions in a stressed market. Smaller issues will likely have much better liquidity as compared to larger, more widely held bonds. There is already some evidence from bond trading platforms that smaller bond issues are displaying better liquidity than larger - supposedly more liquid - issues. Emerging manager funds also tend to be involved in more niche bonds or out-of-favour borrowers where bottom-up credit work on small transactions is able to move the fund's profit dial. They should perform better in a rising interest rate environment. On the other hand, the non-short wearers are almost certain to be the large holders of generic, priced-to-perfection, corporate paper (and government bonds) which can only be sold to large aggressive counterparts.

Just as in the legend of the Pied Piper of Hamelin, there will be a price to pay for today's actions by the central banks. Except in the modern story, it's the investors who should be wary.

Returns only attract attention; enterprise performance gets allocations

Bryan Johnson

This article was authored by Bryan K. Johnson, Managing Partner at Johnson & Company, a marketing consultancy to investors and small hedge funds based in Austin, Texas.

He also wrote for New Managers in October 2012 about the real ROI (Return-On-Infrastructure) and the three behavioral issues that investors look at (article here).

Mr. Johnson appeared in New Managers in February 2012 and talked about the proper procedures of marketing and asset raising (article here).

Previous to launching Johnson & Company, he served as Global Head of Marketing and Business Development for the Alternative Investment Group at Moody's Investors Service. Before that, he served as chief expert witness for The Attorney General of Texas and The State of Texas in the evaluation of hedge funds and private equity firms as acquirers of the assets of Texas Genco in the multibillion dollar true-up of Centerpoint Energy.

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ALPHA4: The 4 critical enterprise evaluation areas - investing, marketing/ distribution, enterprise management and operations

The hedge fund manager selection and allocation process is all about *eliminate*. Private wealth (ultra high net-worth individuals and family offices) and institutional investors at all levels are inundated with manager solicitations and information. On average, an investor gets contacted by about more than 2,000 managers a year, receives more than 100 unsolicited e-mails per week, more than 100 unsolicited phone calls per week and volumes of marketing material.

With little time to spend analyzing all the new fund opportunities, investors and consultants quickly "screen" funds looking for a reason to *eliminate* a manager, as opposed to a reason to say "YES" to an allocation.

The biggest mistake most small hedge funds make is not understanding the multiple evaluation factors investors utilize in the "screening" process.

Most small funds mistakenly believe that the allocation decision is a one metric evaluation: investment return. The reality is that investors and intermediaries understand that many hedge funds are not very good based on a multi-factor enterprise assessment. Therefore a material weakness in any of the 4 critical areas can *eliminate* a fund from the allocation decision, even in the face of exceptional uncorrelated investment returns and investing skill. Through the initial screening process, operationally marginal or sub-par funds are quickly identified and *eliminated* from consideration.

Marginal or sub-par funds, as determined by a thorough enterprise-wide operational evaluation, rarely GROW AUM beyond family, friends and a few initial outside investors. In fact, 89% of all hedge funds perpetually remain well under $100 million in AUM, the minimum institutional threshold.

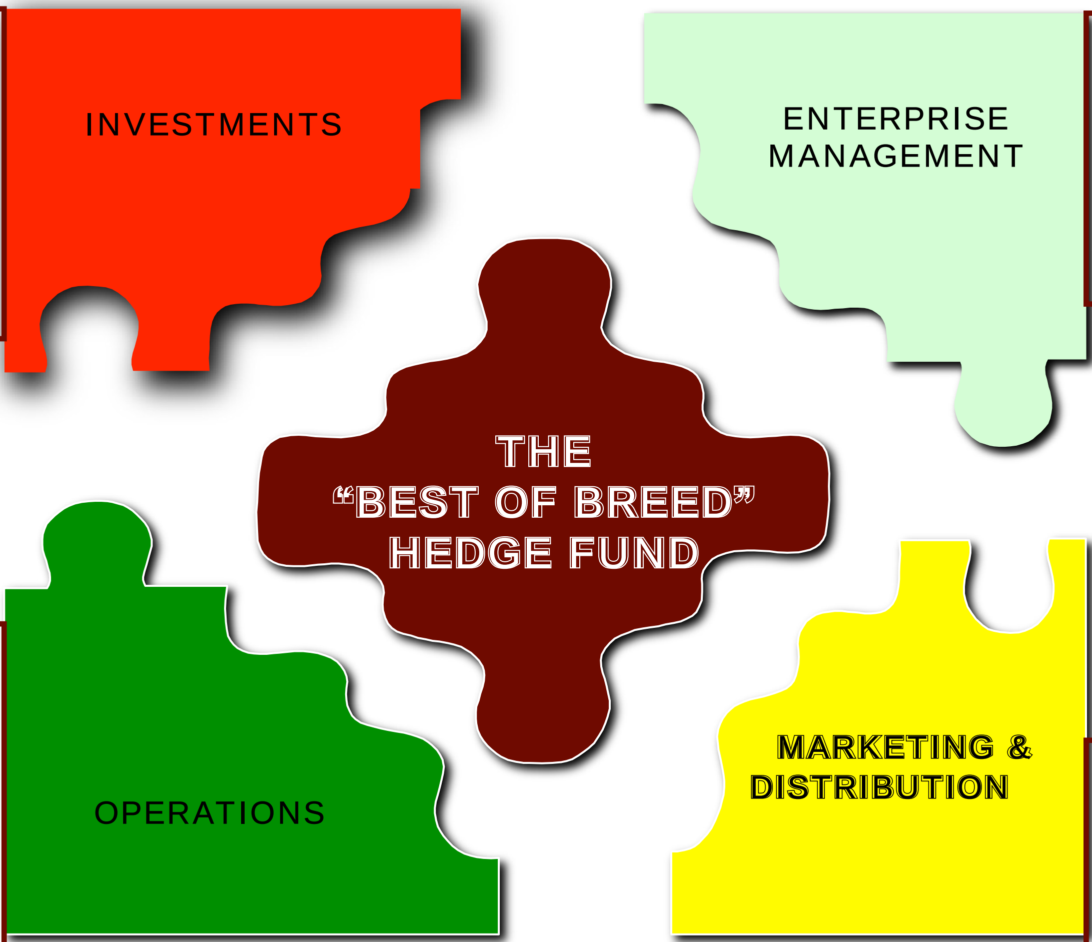
If a fund does not meet the necessary qualitative standards, then no quantitative metrics will be enough to get allocations.

ALPHA4: The 4 essential hedge fund business functions

OPERATIONAL SOUNDNESS IS MANDATORY; OPERATIONAL EXCELLENCE IS A POINT OF COMPETITIVE DIFFERENTIATION

•Source of alpha and investment "edge"
•Disciplined investment process.
• Investment leadership and team.
•Aligned investment team compensation

•Real business leadership.
•Strategic vision and objectives.
•Business strategy.
•Client-centric culture.
•Product development process.



•Operational resources.
• Independence and empowerment.
•Counterparty diversification, quality and monitoring.
•Third-party administration.
•Delegation but not abdication.
•Effective tracking and reporting.
•Strong controls and compliance.

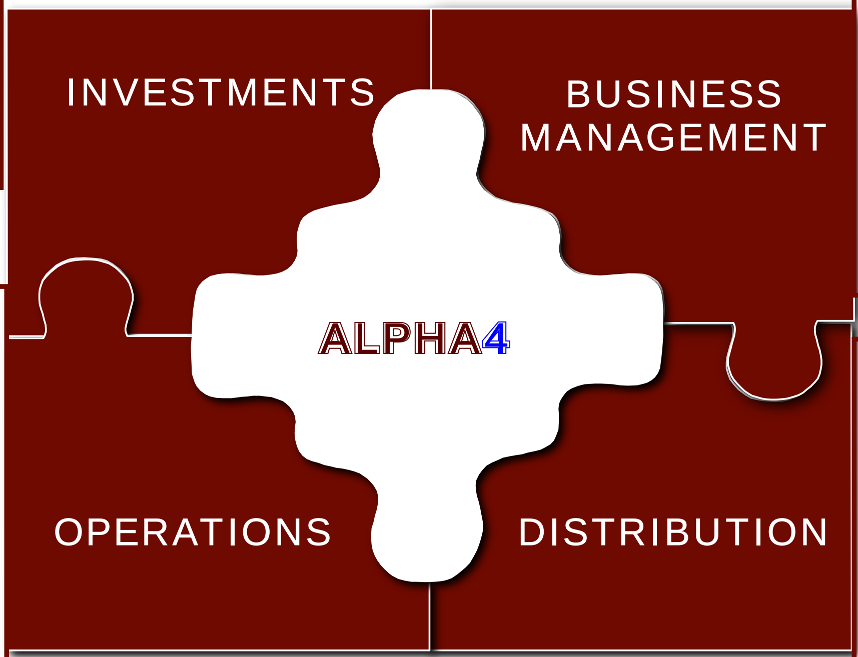
•Empowered distribution team.
• Systematic relationship development and management.
•Client tiering/service levels.
•Managing capacity.
•Strategic marketing

Johnson & Company ©

Are you bringing the "critical business pieces" together?

① Capacity to deliver alpha is effective, consistent, and well understood throughout the firm.
② Investment decisions follow a logical and transparent process, with clear integration of risk management techniques.
③ Investment team is appropriately staffed, and investment leadership is experienced, credible and effective at managing people (not just a portfolio).

① Professionals are experienced, accountable, empowered, and dedicated to business leadership.
② Vision and long-term objectives are clearly defined and well understood throughout the firm.
③ Strategy for business success is clear, consistent with objectives and with firm's strengths.
④ Senior leadership embraces key clients as partners, and extends this approach throughout the firm.
⑤ Systematic process to review and test new product ideas incorporating input from investments, distribution and operations.



① Dedicated, experienced operations team with clear role specialization and appropriate staffing levels.
② Operations team is empowered with separation of duties and independence.
③ Prime brokerage, custodial relationships, cash management, swap counterparties and other sources of financing are of highest institutional quality, diversified across multiple organizations, and continuously monitored.
④ Use of a third party for administration, including the provision of fund accounting, reconciliation and pricing.
⑤ In-house ability to shadow and verify third party administrator.
⑥ Systems and processes to track in real-time data and money, bridging operations', clients', regulators' and investment team's data requirements.
⑦ Processes and systems are widely understood and adhered to; independent compliance capability enforces controls.

① Distribution function (sales, marketing, relationship management, and client service) viewed as equal partner to investments, staffed and managed accordingly.
② Distribution team embraces key clients, is open and forthcoming.
③ Clear rationale behind target channels/ clients, firm and product story, process to initiate and track relationships; explicit objectives.
④ Client-tiering is clear and consistent with distribution and firm objectives; consistent service levels apply to each tier.
⑤ Monitoring and communication in place to ensure investment capacity not overwhelmed by distribution team success.
⑥ Sustained campaign to deepen existing relationships and create new ones through education, thought leadership, and other forms of creative engagement with targets and clients.

To Revere, psychology can help with manager selection

Dan Barnett

Revere Capital Advisors was founded in 2008 with the aim to seed a few single strategy hedge fund managers, CEO Dan Barnett told Opalesque. But the company evolved since then to a slightly different role, that of a research and advisory-driven business.

Back in 2008, managers could be seeded with $20m to $25m. But in 2009, the seeding business went back to the pre-2008 bigger tickets; the likes of Blackstone and Reservoir got involved, with GSAM joining them the following year.

"So it was clear to us that in the absence of more than the $50 million, $60 million that we had to invest, we wouldn't be a compelling force in the seeding world," he continued.

Revere is now an independent alternative investment firm focused on identifying and evaluating the most promising and relevant emerging hedge fund managers.

Over the last years, it has been building a process and a database that analyses emerging managers at the pre-launch and at the launch stage, and the firm makes "research and advisory services available to interested investors, particularly institutions, which want to first know more about the emerging manager space, and then perhaps participate more fully in some other active fashion," Barnett explained.

Revere also currently has a couple of asset management mandates, in which the firm is helping to compose customized portfolios of emerging managers for institutions. And it has just launched REM Marketing Solutions to offer marketing advice and product consulting to early-stage hedge fund managers.

Revere has its own fund too, and is planning another one this year.

"The REM Founders Fund was launched in April 2012," said Barnett. "It is a concentrated portfolio of our best 10-12 ideas, which we initially populated to the tune of about eight managers with our own money. This investment product will showcase our work and validate the quality of our research process."

"Ultimately, we will launch a more diversified fund with a population of 50-60 emerging managers (the REM Institutional Fund); we will be seeking a sponsor or strategic partner for that effort."

The REM Founders Fund, which is open to investors, currently has nearly $30 million of friends and family money; Revere hopes to have $100 million by the end of 2013.

"We typically try to find managers that have $50-60 million already, usually from friends and family, partly because this helps with the operational risk," Barnett noted. "If they are at break-even from a financial perspective, they can concentrate more on the investment side and have less business pressure. We have clear guidelines, but each manager is treated a little bit differently given his or her specific circumstances."

"The [investments will] have to be rotated out when they get too big or successful, so we are constantly looking at replacements and new entrants," Barnett added.

Barnett participated in the 2012 Opalesque New York Roundtable, and mentioned a phenomena in the seeding world, which he calls negative selection.

According to Barnett, in the 1990s and the early 2000s, if you were a great investment manager with a great process, you would not take $50 million from somebody and give up a large chunk of your fees for a very long period of time just to have so little. The clear implication was, you cannot be that good if you are willing to enter in that kind of commercial deal. Now that the big seeders are back, he continued, the concept of negative selection may be coming back with them.

"One of the reasons people offer $150 million of day-one seed money is because they have $150 million or more to invest. They can strike a better deal for themselves economically from the manager and buy capacity as well," he explained.

Barnett thinks that seeding is about assets under management, rather than about time.

When a manager greatly increases his AuM, the economics for the seeder changes and it is a good time to part ways.

"Revere's view was that the success of the manager's business, not the length of time of the shared economics, was the most important factor. A typical large seeder isn't always happy with this because he may feel he is not getting enough year over year income and revenue from the manager who has become too successful, too quickly. That's another form of negative selection," Barnett explained.

He added that when large seeders don't get out, "that creates a pretty contentious environment between seeder and manager with potential negative effect."

Barnett believes that the whole psychology of building a small company is important. It should include an upfront structured deal that is motivating for the manager. The deal should make it clear where, when and why one will get in and out. For this it is also important to understand thoroughly the psychology of or the motivation of the manager (why does he want to be in business, what does he want to achieve, was he fired from last job or was it Dodd-Frank thing, maybe he wants to live in a bigger house, etc.).

"Everyday we ask questions about the reasons for starting a business," he concluded, "because it makes a difference to his chances of success and because building a company is a very hard thing to do."

Note: Revere's fact box is next page

- *Benedicte Gravrand*

Seeders' Corner news review

1. Paris-based hedge fund seeder NewAlpha Asset Management confirmed its latest (and 20th) investment deal, this time with LindenGrove Capital LLP, a recently launched London-based hedge fund management firm focused on global macro strategies. NewAlpha invested through a closed-end fund dedicated to institutional investors seeking exposure to early stage managers. You can see our interview with LindenGrove' CIO in the Profiles section of this publication.

2. Since it launched its Emerging Manager program at the beginning of 2012, Grosvenor Capital Management made its third strategic partnership, this time with Continuum Investment Management, an asset management firm focused on investing in the structured fixed income market. Continuum was founded by Kevin Scherer, a former Managing Director and Senior Portfolio Manager at Citadel LLC. Prior to working at Citadel, Mr. Scherer co-founded The Midway Group LP, a mortgage-focused hedge fund, in 2000 and spent 8 years with the firm.

Name : Revere Capital Advisors

Headquarters: New York

Other offices: London

Established in: 2008

Type: Boutique emerging hedge fund manager specialist, manager of a fund of funds.

Core offering: Research and advisory services, and a fund of emerging funds

Other offering: REM Marketing Solutions

Total AuM: N/A

How many funds seeded so far: 9 or 10

How many seeded funds in total (expected): One to three investments per year

How many more: 2 to 4

Strategies / geographies:

Typical ticket size:

Terms / length of investments:

Revenue share?: n/a

Equity share?: n/a

Founder share?: n/a

First Capital loss: n/a

Acceleration capital: n/a

Post-seeding activities: n/a

Contact: elandsness@revereglobal.com

Website: www.revereglobalresearch.com

Linedata caters for budget conscious fund managers

Ed Gouldstone

Linedata makes it as easy as possible for startups and emerging managers to get on to their platform and demonstrate the same operational strategy as funds ten times the size.

Linedata is a global solutions provider. The listed firm is headquartered in France, and achieved revenues of €137.3 million in 2011. Ed Gouldstone, head of Hedge Fund Product Management told Opalesque that Linedata provides technology and services to the financial service industry, with a particular interest in the alternatives sector.

"Our software assists managers in meeting their operational needs. That includes valuation of portfolios, trading, modeling portfolios, making portfolio management decisions, investment accounting, and compliance; the full coverage of operational technology and software that an alternative manager may need," he explained. "We deal with both emerging managers, startups, right through clients who run more than $50 billion in assets," he added.

There is a solution that the firm reserves for hedge funds, which is called **Linedata Global Hedge**. Gouldstone noted it is particularly relevant for the smaller or emerging managers who are usually more budget-conscious, as it is modular.

"In a similar way to Microsoft software, where you have got your PowerPoint and various other modules which help you run different aspects of your business; each module can be taken on its own or as part of a larger package, and modules can be added at a later date," he said.

May Lim, COO and executive director at Magenta Adivsors PTE Ltd, a new Singapore-based boutique asset manager that recently hired Linedata, said, "Linedata offers us both the functionality and scalable technology that we require to support our business. As a start-up, it is crucial for us to have control of our costs without sacrificing the integrity of the firm. We chose Linedata's hosted solution as it gives us peace of mind regarding the system and data availability, it takes away the need for us to perform costly data backups and allows us to make the most effective use of our time by focusing on our core business. Looking forward, the ease of adding new funds and structures to the system means that we can launch a new product offering to our investors quickly and without incurring hefty implementation costs."

At the heart of Linedata Global Hedge, Gouldstone continued, is the core portfolio management module. "When a manager comes to us, we start from what their core needs are. They may need a books and records system which will give them their own valuation for their portfolios, which will act as a store of all their transactional trading history. That's a database which allows them to store all of that; to do historic reporting so they can provide month-end reports for investors, and it also handles things like the communication back and forth with their prime brokers and fund administrators."

Emerging managers may use the module differently, he noted, depending on the strategy, the trading volume, and in what format they intend to offer their products to investors. "But the thing that's common to all of them is they need to store their transaction history, so they have always got a clear auditor record of what the fund is doing," he added.

Linedata also offers competitive rates for startups. "We recognize that there has to be an entry level or a way for an emerging manager to access that level of technology that allows them to grow," Gouldstone told Opalesque, "and we are very happy to do that."

The firm has a particular approach for startups called the **Alpha Approach**; which implies that rather than purchasing everything up front, managers can expand their software usage as they grow. A lot of managers also connect to the software over the Internet using cloud- based technology.

Commenting on the trends he has observed, Gouldstone said, "Something we have seen a lot in the last nine to twelve months is that firms now want flexibility in how they are going to offer their strategy. Having flexibility in how you are going to run share classes, different fee structures, or offer managed accounts, is a serious consideration now, and you see that a lot more frequently with some of the small managers actually designing their investment products to suit what they're investing in."

So, those who are going to offer a single managed account or different fee structures or share options, will need more operational technology to help them manage those complexities that that entails.

- *Benedicte Gravrand*

Name : Linedata

Headquarters: Paris

Other offices in: Canada, China, Hong Kong, Ireland, Latvia, Luxembourg, Spain, Tunisia, UK, USA

Established in: 1998

Core service offering: Global solutions provider to the investment management, the insurance and the credit community

Related services: Software packages and solutions for front-office, back-office, investment processes

Supporting how many investment businesses: more than 250 asset management companies

FuM: N/A

Contact: Asia +85235837900; London +44 20774698600; New York +1 212 4858580; Paris +33 146117000

Website: www.linedata.com

We recently heard of those ex-hedge funders (including a couple from Tudor, a couple from Soros, and a few more from SAC) striking out on their own:

1. Ex-FrontPoint manager **Tim Flannery**, who ran utility and energy fund Copia Capital, which had to be liquidated in December, is apparently planning a comeback in March.

2. Steve Gross, who was previously portfolio manager at Tudor Investments and before that, partner at Penso Capital Markets and fund manager at Millennium, has just launched **AlphaParity** in New York and its new fund, the All-Weather Strategy (full Opalesque Exclusive article in AMB and in this publication's Profiles section).

3. **Andrew McMillan**, Another former portfolio manager at Tudor Investment Corp who oversaw energy investing from Singapore is setting up his own business with five former colleagues. Tudor partners may invest with McMillan when he preps his fund.

4. Imran Hussain, former head of emerging market debt and currency portfolios for BlackRock, quit and partnered with former Octagon Asset Management head portfolio manager Mead Welles to launch a new emerging markets fund in New York called **Infineon** Capital Management. Hussain was recently quoted as saying: "The characteristics of the crisis in the developed world are very much emerging-market-like in nature and not well understood by G-7 [market] participants. Their investment frameworks did not anticipate the potential for zero-interest-rate policies and asset price targeting mechanisms by central banks. We are witnessing economic distortions on an epic scale, and this tale is far from over."

   Paul S. Greenberg, co-founder of $1.13 billion Trilogy Financial Partners, launched **Lutetium** Capital and is planning a new long/short credit fund.

5. Tony Hall has set up **Hall Commodities** LLP, in London, with former colleague Arno Pilz in December 2012, five months after the pair left hedge fund Duet Commodities Fund Ltd.

6. Jixin Dai, a Soros portfolio manager who helped open the billionaire's Hong Kong office two years ago, left to start his own hedge fund; he formed **Jixin** Capital in Hong Kong and hopes to start trading in the second quarter.

7. Former Soros Fund Management and SAC Capital Advisors portfolio manager Aaron Cowen launched **Suvretta** Capital Management with $165 million.

8. Charles Simonian, a former portfolio manager at SAC Capital Advisors LP's Sigma Capital unit, plans to start a long-short equity hedge fund; will open New York-based **Trove** Capital Management LLC in March or April.

9. A veteran of George Weiss Associates, SAC Capital Advisors and Carlson Capital, Jason Karp launched his new long/short equity hedge fund firm **Tourbillon** Capital Partners on January 14 with about $250m in AuM.

10. Pierre Andurand, the co-founder of BlueGold Capital Management, the commodities hedge fund manager whose fund shut down last year after losing a third of its value in 2011, is preparing to launch a hedge fund that will focus on trading oil derivatives. He set up **Andurand** Capital Management and told Financial News that the new firm is already running a managed account and will launch a fund in February.

Former bankers and others who are starting new funds:

11. **Magenta** Advisors PTE Ltd, an independent boutique asset management and investment advisory firm based in Singapore, was founded in 2012 by Evonne Tan who has nearly 20 years of financial markets experience, the last 5 of which were with Morgan Stanley Singapore. Magenta's recently-launched SGD Macro Fund targets gross returns of 15% p.a. through top-down macro themes. The Magenta Credit Strategies will be launched at a later date.

12. **Jonas Granholm**, group pension manager at Skanska, and Gustav Lundeborg, managing director of the Swedish group's pension foundation, are teaming up with former Skanska CFO Hans Biörck to launch a hedge fund. They expect to be granted a license at the end of the first quarter.

Keeping posted:

Swiss CTA shop **Andreani** (which was launched a year ago) will be launching a multi strategy quant fund by the middle of the year. The new fund will run a long/short equity program on proprietary synthetic European Supersector indices, along with a CTA. (Full Opalesque Exclusive article).

New York-based **Cruiser** Capital LLC announced that its one-year old fund had returned +25.91% for 2012. The fund's strategy is to look for public companies that are trading at valuations well below what private buyers would pay for them.

- *Benedicte Gravrand*

Protégé Partners sees growing interest in smaller funds

Some investors are beginning to turn their sights toward smaller newcomers to deliver the kind of double-digit returns that made the industry famous, according to Reuters.

"We are seeing a lot more interest today in smaller funds than in the last few years," said Ted Seides who specializes in reviewing established small and select emerging managers as co-CIO at Protege Partners. "Finding the right small hedge funds affords investors a wonderful opportunity to earn returns that meet return objectives and that generate risk - adjusted returns that are among the highest available in the capital markets," he added.

Simple Alternatives searches for sixth simple manager

Simple Alternatives, LLC is an institutional alternative investment manager based in Ridgefield, CT. A boutique firm with a concentrated portfolio of strictly long/short equity, it favours smaller managers (with less than $500m in AUM), and bottom up fundamental stock pickers.

The firm's flagship product, the S1 Fund is a multi-manager, hedged equity strategy, in a mutual fund structure; Dilworth is looking to expand its current portfolio of five managers and add a sixth one. (Full Opalesque Exclusive article).

Even if women-owned hedge funds outperform, that may not impact emerging manager mandates

Women-owned or managed hedge funds continue to outperform their male counterparts and led the industry as at the end of the third quarter in 2012, said professional service provider Rothstein Kass in its latest study, "Women in Alternative Investments: Building Momentum in 2013 and Beyond."

The Rothstein Kass Women in Alternatives Hedge Index produced a YTD net return of 8.95% through September, compared to the HFRX Global Hedge Fund Index' 2.69% return. Furthermore, over a five year period, the Rothstein Kass Index outperformed both the HFRX Global Hedge Fund Index and the S&P 500.

Other findings said that many of the respondents were uncertain that emerging manager mandates would have a large impact on demand for women-owned funds in the next 12 to 18 months. Hedge fund respondents tended to be the most optimistic about the impact of emerging manager mandates, with 25.5% stating they believed these mandates would increase the demand for women-owned funds. (Full Opalesque article).

Fancy a completely different location?

The country is becoming a magnet for hedge fund managers as lower operating costs, the world's highest number of Ph.D.s and hi-tech startups per capita overshadow concern that Israel may be attacked by missiles from Tehran.

The number of funds has grown to 60 overseeing about $2 billion from 13 in 2006, reports Bloomberg.

Startups still like the Caymans

The Cayman Islands reported a surge in hedge funds registrations in 2012 largely because of the new regulatory requirement to register master funds, said Ingrid Pierce, managing partner at global law firm Walkers during the recent Opalesque Cayman Roundtable.

Overall new funds have been a bit slower to launch; it seems to be taking longer for people to raise capital," she added. "Still, we have quite a lot of new funds in the pipeline for the first quarter of [2013], so we are pretty positive. There is a lot of activity in Asia, but we are also getting a significant number of inquiries from the U.S., especially for start-up funds. A lot of these new managers launch with a relatively low asset base, but that isn't stopping people from going offshore, which is a good indicator of what's to come." (Full Opalesque Exclusive article).

More hedge funds may focus on retail market going forward

Donald Steinbrugge, Managing Member of Agecroft Partners , a third party marketer based in Richmond, VA, predicts that hedge fund performance in 2013 will be driven by pension funds increasing their asset allocations to hedge funds, and a broadening of the hedge fund investor base due to the passage of the JOBS ACT.

The hedge fund industry is highly competitive, he says, with some estimates as high as ten thousand funds in the market place. In 2013, he anticipates 5% of the funds will attract 80% to 90% of net assets. Not much left for smaller funds.

As raising assets for hedge funds becomes increasingly difficult, Steinbrugge also sees more hedge funds beginning to target the retail markets that are less competitive. Europe has seen a growth in the assets in UCITS funds and more growth is expected in 2013. In the US, 40 Act hedge funds and hedge fund of funds will expand, with many more expected to launch in 2013. There should also be more hedge fund replication strategies utilizing ETFs. All of these have their strengths and weaknesses and could create more regulatory scrutiny, he notes. (Full Opalesque article).

Start-up market is still active in Asia

Tech firms are expecting a boon from an increasing number of alternative fund launches in Singapore and across the Asia region this year, TheTradeNews.com reports. "While there was a dip last year, the start-up market is still active in Asia and it is likely we will see more hedge funds launching this year," said Sally Crane, managing director of trading technology provider Linedata Asia.

Smaller Asia hedge funds made their investors richer

Several Asian stock markets rallied in 2012 but many large hedge funds did not beat benchmark returns, whereas smaller hedge funds such as Factorial and the Splendid Asia macro hedge fund did much better, Reuters reports.

"The industry's dirty little secret is that institutions' need for scale leads them to invest in organisations and funds that are actually too big to be safe," Peter Douglas, founder of Singapore-based hedge fund consultancy GFIA, told Reuters.

Managers of the smaller funds appreciate however that if the bigger funds fail, the entire Asia hedge fund industry would suffer, as while some of the money meant for large funds would go to smaller funds, much of it would otherwise go west.

Warning: Don't rush it just to avoid AIFMD compliance

Start-up hedge funds should not to rush their launches to avoid full compliance with AIFMD in July 2013, warned Phillip Chapple, executive director at KB Associates in London, a boutique hedge fund consultancy. Cooconnect.com reports that the UK FSA consultation paper on AIFMD Level 1 confirmed existing managers would be granted a one year grace period until July 2014 to make right their AIFMD compliance obligations, but managers launching after July 2013 will not have the same rights.

"Hedge funds cannot afford to cut corners just to delay AIFMD by one year," he said.

Regulation and lack of assets are chocking creativity

Regulation and lack of assets are chocking the hedge fund industry and for this reason, it may never be what it was back in the 90s, participants at the recent recent Opalesque Geneva Roundtable said.

The cost of regulation has become totally unbearable, agreed Jean Keller, who heads Argos Fund Managers. He reckons the regulatory costs to start a regulated business in Switzerland that offers UCITS funds, is around CHF2m ($2.18m). (Full Opalesque Exclusive article).

- *Benedicte Gravrand*

LindenGrove's new global macro hedge fund is positioned for relatively positive outlook

The LindenGrove Capital Master Fund is a fundamental fund launched last month in London, which pursues a combination of directional macro and relative value strategies.

We recently heard about a new London-based firm called LindenGrove Capital when French hedge fund seeder NewAlpha Asset Management announced it had invested in the firm's discretionary global macro hedge fund.

According to the announcement, the LindenGrove Capital Master Fund implements a wide array of discretionary global macro strategies within a multi-strategy, multi-manager framework, similar to the successful model run by the founder while he was at Nomura. The Fund allocates the capital dynamically between separate portfolios employing macro directional, directional relative value and pure relative value strategies on liquid markets and products. A systematic risk management framework is implemented to limit downside risks at both the individual and the fund level. Some of the instruments that are used include futures in rates as well as equity indices, OTC interest rate derivatives (swap or options), government bonds, credit indices, index options and foreign exchange options.

Launched on December 12th 2012, the Fund targets an absolute performance of 10-15% per annum with 8% annual volatility. It returned 0.28% (Class A USD) and 0.23% (Class B EUR) net that month. The primary performance contributors were, according to the fund's monthly report, a long position in FX volatility; long 2-year swap spread position in USD; short position in USD rate duration; and tactical directional trading around the fiscal cliff story both in FX and in equity indices.

Borut Miklavcic, founder and CIO of LindenGrove Capital, told Opalesque that the team's macroeconomic outlook is relatively positive.

In the U.S., the fundamentals "are starting to fall into place," once the country gets through the fiscal cliff and political hurdles.

"If we can ride through the first few months of the year and the economy can survive intact the fiscal drag that will come from the retrenchment," he commented, "then you are setting yourself up potentially for much better outlook in the U.S."

He also thinks that the consumer balance sheet, the corporate balance sheet, housing, the "whole energy windfall" will be in a better shape generally.

Japan is a potential game changer, Miklavcic believes. After 20 years of recession, the country might actually do something to change things. But this remains to be seen.

As for Europe, the LindenGrove team is cautious. "We understand that the ECB has put a backstop in place and clearly the market is buying that," Miklavcic noted. "But we are still worried that there is a lot of fragility there. We continue to look for opportunities where you can buy tail risk on things like Europe. Low implied volatilities allow us to do that relatively cheaply at the moment."

Within foreign exchange, the managers think implied volatilities everywhere are extremely low, driven by the hunt for yields and increased liquidity. At these levels, a lot of implied volatility is cheap and LindenGrove wants to buy that.

"You never know, there is always uncertainty so you want to be long the volatility when it is this cheap," he concluded.

- *Benedicte Gravrand*

If you would like your fund to be in the Emerging Managers Database, please send your information to: db@opalesque.com or register your fund directly on Opalesque Solutions' Emerging Managers Database.

Ex-Tudor manager to launch global macro fund that bets on risk premia

Steve Gross

(This article was published in Opalesque's Alternative Market Briefing on January 22nd, 2013, here.)

Global macroeconomic uncertainty has driven bond yields to record low and global risk premia to all time highs. AlphaParity's new fund, the All-Weather Strategy, which is to be launched this week, is designed to capture those very risk premia.

The fund is fundamental with a momentum bias, and it focuses on value, carry and momentum across the four major asset classes, namely equities, fixed income, FX and commodities through highly liquid exposures. It also has a Tail Opportunities Overlay to profit from extreme market dislocations. The goal is to generate a 1.2 net Sharpe ratio. The AuM cannot be disclosed but apparently there are some institutional backers and committed long-term locked-up money.

Steve Gross, the founder and CIO of the new firm, New York-based AlphaParity, is investing a significant portion of his net worth in his new business. He has twelve years of experience in the hedge fund industry; he was previously portfolio manager at Tudor Investments and before that, partner at Penso Capital Markets, and fund manager at Millennium. He founded AlphaParity based on a theory which he explained to Opalesque.

"In 1987, the market crashed and the next day the market changed the way it perceived and thus priced risk," he started. "Puts became more expensive than calls, because we realized that things can go down a lot faster than when they go up."

If in 1990 you had tried to take advantage of different option strategies without having changed the way you go about it to reflect the way the markets had changed, then you would have struggled, he added. And 2008 is exactly the same. The market then changed the fundamental way it saw and priced risk. Before then, time equalled less risk. In the long run, things would get better, it was believed. After '08, time became more risk.

Gross believes that institutional investors' portfolio allocation process has not changed accordingly, and this is the underlying reason why they have struggled to produce the return they need.

He believes institutional portfolios have not changed because few firms have offered them anything to change to. "They are basically stuck in the old paradigm, because the investment manager broadly speaking is still stuck in the old paradigm."

His approach is based on risk premia being the new yield – and this yield should be captured. He constructed his portfolio from scratch, and focused what it should look like rather than on the positions he wants to own. He came up with what he wanted to capture, namely: robust revenue sources; optimal diversification; low correlation especially in times of stress; lower dependency on the market beta; liquidity; and the ability to make money in extreme events. He spent the last couple of years focusing on the question: 'how close can you get to capturing all those risk premiums in the ideal portfolio construct?' When he and his team came to a robust solution, it was time to launch AlphaParity.

"In terms of structure, the way we think about the world is; long-term returns are made up of [a few] basic building blocks," he said. "You can explain the returns of any asset with only three important points. The returns of every asset, whether it is real estate, a stock, it really doesn't matter; they are all going to come down to what price you paid, what market cycle you were in, and what you got paid to hold the asset in the meantime, which in effect is really just value, carry and momentum." As there are four different core liquid-asset classes, he wanted to deconstruct them and turn them into 12 building blocks, which can be arranged in different ways to provide investors with the solution they want.

"There is another layer to AlphaParity's structure, which is based on the principles that we live in two worlds at the same time: the what-should-happen world and the what-could-happen world. "

Investors usually find it difficult to apply both views at the same time, he believes, and both views have their own challenges.

"The what-should-happen investor buys a lot of hedges against the what-could-happen world and then loses a lot of money on his hedges and it reduces his returns," Gross explained. "The what-could-happen investor makes big bets on expected long-term macro events, but is often too early, and so he also cannot produce returns." And then there is also the issue of switching from one view to another, which does not always work. He believes this is why macro investors have struggled to produce positive returns.

His fund embraces both approaches at the same time. "We have our core alpha building blocks, which are what-should-happen world building blocks," he said, "and at the same time we want our tail opportunities overlaid on top of this. The Tail Opportunities Overlay is entirely in the business to capture a what-could-happen world."

This new fund could – and should – be testing its premises as soon as today.

- *Benedicte Gravrand*

Ascendiant Capital expects volatility to pick up in 2013

Jay Rogers

Ascendiant Capital is anticipating volatility to pick up this year, driven by several global concerns. The California-based firm manages Alpha Strategies, a discretionary opportunistic trading fund.

"Domestically, we have rising taxes, unemployment, failure to address energy independence and continued government intervention in the financial markets," said Jay Rogers, a partner at Alpha Strategies, in a conversation with Opalesque. He added, "Across the pond we are dealing with the implementation of European austerity programs, changing demographics and the results of a gradual move towards socialism. The Middle-East is always a hot spot with Iran's nuclear ambitions, Israel trying to maintain its sovereignty and borders, and Syria, Egypt, Libya and Palestine all struggling with change. The instability in the region contributes to concerns over energy pricing and the potential for war to break out. In the emerging markets like China, India and Brazil we are seeing their lofty growth rates coming back down to earth."

However, Ascendiant will continue to aim to outperform the market with minimal risk to its principals. The fund has generated solid performance after being launched just over a year ago, in October 2011.

The strategy is currently featured in Opalesque Solutions' Emerging Managers Database.

Rogers commented, "Our ability to generate Alpha has been primarily due to the nature of the trading strategy. We are not long term investors and tend to be in and out of the market, capturing price movements or swings. Traditional long only strategies and some fundamentals based long/short strategies will have greater Beta exposure by their nature. Our strategy delivers more pure alpha."

"For this period we were trading positive whereas our index was negative for a majority of the time," he continued.

Rogers said the strategy started off with some money from friends and family. But after crossing its first year, it is starting to attract interest from outside investors, especially now that the strategy has proven itself.

Ascendiant employs a joint venture pricing structure rather than the typical 2/20. It does not charge a management fee, but simply splits the profits, after trading costs. Since Ascendiant operates under a broker/dealer structure, all of its personnel are licensed by FINRA.

However, Rogers admitted that the last few months of 2012 have been difficult for the strategy to generate the kinds of returns they want. "We find more opportunities during higher volatility periods, and the past few months the VIX has been trading near historical lows. Fortunately, while lower volatility makes it harder for us to generate gains, it does not inherently create losses," he said.

Rogers admits that he cannot predict or control the markets. He follows the principle that each day brings opportunity for movement in the markets, so he looks at these opportunities and tries to capitalize on price fluctuations and dislocations in the market.

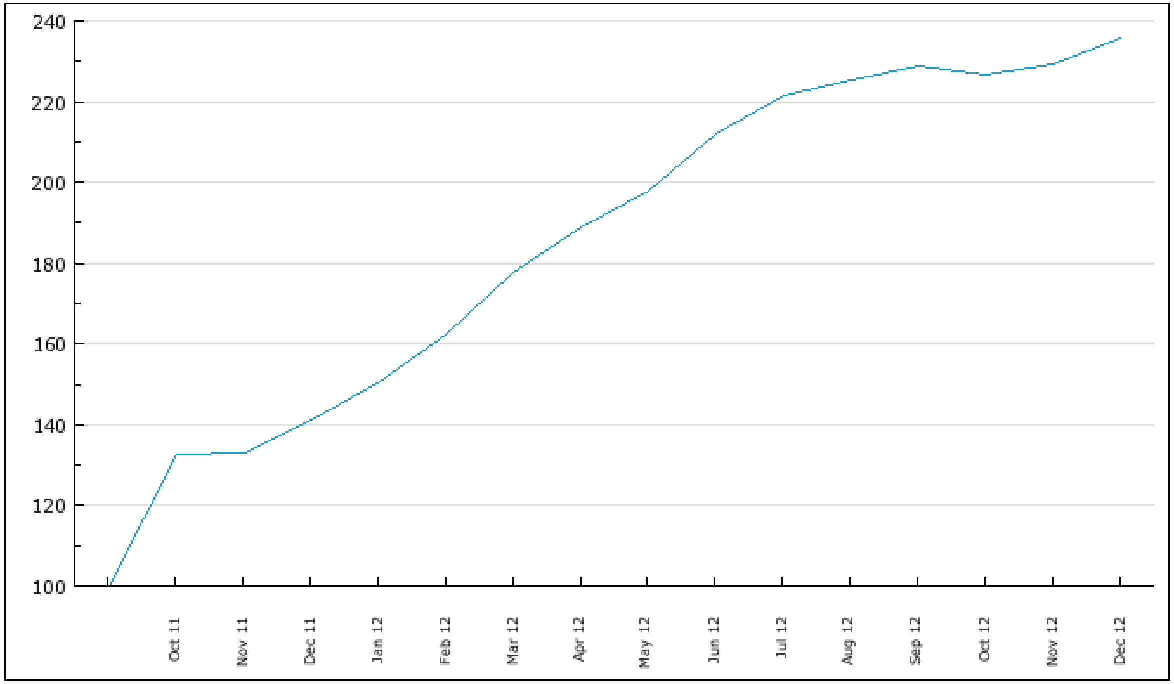
Strategy

Rogers describes the Ascendiant strategy as discretionary opportunistic trading. The strategy primarily trades in U.S. equities but also uses derivatives when the managers have a conviction on an idea. Since it trades stocks of all capitalizations, the strategy is unique compared to other long/short equity managers and it is difficult to benchmark performance. The closest index is the HFRI Equity Hedge Index, and Ascendiant was significantly ahead of it in 2012 and since inception.

The philosophy behind the investment strategy is a paradigm shift from traditional investment management philosophies. Historically, investment managers develop an investment thesis (growth/value, large cap/small cap, sector/index, fundamental/quantitative) and a methodology for making its security selections (P/E Ratio, PEG Ratio, P/S, earnings revisions, rising dividends, etc.) and then implement the strategy. But for Ascendiant, the market dictates a specific strategy that will work for the fund.

"We look at current market conditions to determine where opportunities lie," Rogers explained.

"Instead of being beholden to a strict growth or value philosophy, we trade long or short based on current market conditions. We enter each trade with an exit point in mind. We do not use a buy and hold approach; instead we are in and out as soon as our price target has been made.



Ascendiant Capital Fund, LP – performance since inception

This trading strategy is part of our risk management process. To use a baseball analogy, we are looking to hit lots of singles and load the bases rather than trying to swing for the fences and having a lot of strikeouts."

- Komfie Manalo, Opalesque Asia.

The Ascendiant Capital Fund can be found in Opalesque Solutions' Emerging Managers Database, which is available to Opalesque' subscribers. You can subscribe here: Source.

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IKEN Capital quadruples assets five months after inception

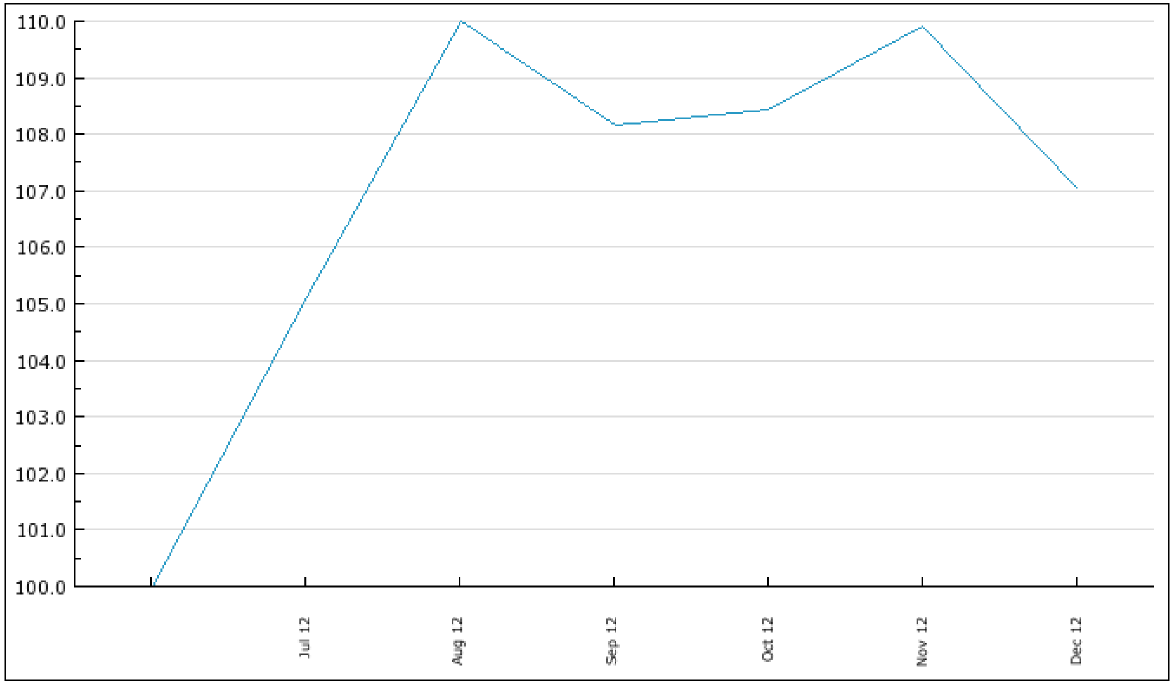
The IKEN Capital Commodity Alpha Fund, a Cayman-domiciled commodity fund managed by London-based Iken Capital, was launched July 2012 with partner capital. By the end of November '12, the fund's assets had already quadrupled.

The IKEN Capital Commodity Alpha Fund is currently featured in Opalesque Solutions' Emerging Managers Database.

IKEN Capital's COO James Brueton explained in an interview with Opalesque that the fund has a strong focus on investments in energy derivative markets, and the investment strategy combines fundamental and technical analysis with dynamic hedging.

"We are in the top quartile of performance for managed futures and CTAs since inception," he said.

"We use a three tiered investment approach centered on a relative value cross commodity book, over which we have a trend following strategy on each commodity to profit from volatility spikes and intra-day trends. The third component is a portfolio insurance hedge in the form of option strategies which protects us from black swan events. This approach is relatively novel whilst seeking diversification and zero correlation with all other markets."



Iken Capital Commodity Alpha Fund, performance since July 201 inception

The investment strategy is the continuation of the one applied in a managed account that the managers had been trading in the past four years.

IKEN is a contrarian fund and trades around fair value by looking at historical relationships. The strategy fares very well in the current environment because a range of macro induced volatility continues to influence relationships between commodities that suits its screening models. The strategy obviously needs a certain degree of volatility to capture the most alpha.

Since inception, the fund has performed exactly as expected and in line with IKEN's previous experience. "We have had four up months, our largest up month was 5.1% and one down month (-1.6% in September)," Brueton noted.

As of this writing, IKEN has not yet released its performance for December, but during November, the fund was up 1.35% (+9.91% since inception in July 2012). Brueton said the fund opened the month with a volatile opening two weeks that generated 90% of their returns. "Then a relatively quiet end to the month that had little to no impact on the performance. Because our core strategy is relative value - we have zero beta component to our portfolio - we truly profit whether markets are going up or down," he added.

Looking forward to 2013, Brueton said IKEN is neutral to the commodity index direction because the fund mainly profits from differences between commodities.

"Looking forward, U.S. refiners that are subject to end of year tax inventories of crude have a financial incentive to postpone new purchases of crude as much as possible into the new year, which will be driving opportunities in crack spreads. From the beginning of the New Year, we expect to see a surge in demand and a recovery in prices as supply diminishes," Brueton concluded.

- *Komfie Manalo, Opalesque Asia.*

The IKEN Capital Commodity Alpha Fund can be found in Opalesque Solutions' Emerging Managers Database, which is available to Opalesque' subscribers. You can subscribe here: www.emerging-managers.com/pricing.html.

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