Kentucky pension to consider SMAs for remaining HFAs

$15bn scheme could maintain some strats with lower fees and revised structures
BY JASMIN LEITNER

KENTUCKY RETIREMENT SYSTEMS (KRS), which plans to cut more than half of its hedge fund investments, will consider maintaining some exposure at a lower cost through managed accounts, HFMWeek has learned.

The potential move comes amid broader plans by $15bn KRS to reduce its exposure to “absolute return” by at least $800m in the next three years, with 27 funds set to be axed initially.

KRS, which manages five pension and five healthcare plans, will monitor and review another 14 of its funds to determine whether to maintain their exposures at reduced fees, possibly through managed accounts.

The use of managed accounts by investors is a growing trend, according to new research by EY, driven by the desire to modify fees, liquidity and transparency.

Some 42% of allocators are looking to increase hedge fund investment through the use of segregated accounts and customised products. The EY survey found 48% of allocators are investing in funds with customised fees and liquidity terms, while another 41% are invested in products that offer customised transparency and reporting.

KRS’s planned hedge fund cuts have been widely cited as the latest example of frustration and declining support.
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Carrhae hires HBK Asia specialist for $200m EM launch

LONDON-BASED LONG/short equity manager Carrhae Capital has hired HBK Asia specialist Ben Miller to run a new $200m emerging market l/s credit fund, HFMWeek has learned.

Miller joins Carrhae this month and will manage the Carrhae Capital Global Emerging Markets Opportunities Fund, which is set to launch in the first quarter of next year.

He had been in his second stint with HBK, having rejoined in 2014 from Serica Partners, a Hong Kong-based manager he co-founded in 2008 with Ivan Lee, a former fixed income strategy and analysis chief at Citigroup.

In his first stint at HBK, Miller managed money in the US firm’s Hong Kong office, while on his return he was based in London.

The new fund will be the third to be operated by Carrhae, and will take the firm’s AuM from $900m to $1.1bn.

Carrhae already runs a l/s equity fund, launched in 2011, and a long-only fund which opened in 2014.

The firm’s flagship strategy is managed by ex-SAC Capital manager Ali Akay, who leads investments for Carrhae as the firm’s CIO.

Akay launched the firm in 2011 having previously traded money for SAC Capital Europe, HBK Capital Management and for the Principal Strategies Group at Goldman Sachs. Carrhae received initial seed investment from Blackstone.

Carrhae declined to comment. HFMWeek revealed in December 2013 that Carrhae was launching the long-only fund, having and seen its flagship outperform most of its peers during the year with annual returns of around 15%.

This year, emerging markets hedge funds were up 9.6% YTD at the end of October, according to HFR figures. ■ s.mcdonald@hfmweek.com

Continued from page 1

interest among US public pension plans towards the sector, although its consideration of managed accounts as a way to maintain some exposure in a customised format paints a more nuanced picture.

“Most of the managers being redeemed in this first wave fall in the long/short equity, equity market-neutral or event category,” CIO David Peden told HFMWeek.

The hedge funds that face further review and which may remain in the portfolio run global macro, CTA and some pure relative value strategies such as fixed income, convertible or merger arbitrage.

“These are going to stay in for the time being and we’ll continue to evaluate, with the hope that we can restructure fees, and/or go from an LP to a managed account to improve transparency,” Peden said.

Customised products are not inherently cheaper. One large consultant, which advises a number of North American pensions, cautioned that the administrative costs of managed accounts need to be weighed against potential fee savings.

Jana Partners, Libremax Capital, Knighthead Capital and Pine River received redemption notices from KRS in August – prior to the broader restructure announced last month – and could be joined by Scopia Capital, Tourbillon Capital Partners, Luxor Capital Group, Senator Investment Group, DSAM Partners and Glenview Capital Management among others.

“Anything with a beta was going to [face] a tough hurdle to be in the portfolio,” Peden said, adding that the majority of managers facing redemptions have not yet been informed.

Read our profile of KRS in the next issue of HFM Investor Relations for more insight into the pension’s position.

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Editor’s View

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Donald Trump’s victory in last week’s US election has raised manager hopes that the president-elect will dismantle burdensome regulations and trigger the scrapping of a number of controversial rule proposals.

Trump last week repeated his pledge to repeal Dodd-Frank, although experts say a watering down of aspects of the 2010 regulatory framework may be more likely than a radical overhaul.

Trump’s priority appears to be ensuring banks face fewer lending hurdles and it remains to be seen whether there will be a loosening of hedge fund reporting burdens, something prominent Republicans like House Financial Services Committee chair Jeb Hensarling will be pushing for.

The Dodd-Frank Volcker rule has had a huge impact on the interaction between banks and hedge funds and a few managers we’ve spoken to since Trump’s victory have expressed a nervousness about bank prop-trading shackles being lifted, due to an increase in competition it would create. On the flip side, such a loosening could boost investment into the sector.

Prospects for the CFTC’s Reg AT plans to allow easier source code access for regulators don’t look good, particularly as Republican commissioner Christopher Giancarlo, a huge critic of the rule, is seen as a favourite to replace Tim Massad as chair.

The SEC’s proposed derivatives clampdown, which as currently drafted would have a massive impact on managed futures mutual funds, is also looking shaky. Former SEC commissioner Paul Atkins, a critic of current SEC policy, is helping to advise the Trump campaign and is known to favour a lighter regulatory touch while a number of hedge fund names, such as Dune Capital Management founder Steven Mnuchin and SkyBridge Capital founder Anthony Scaramucci, are also part of Trump’s transition team.

Scaramucci is calling for a 10% cut in regulation as a starting point and the deregulatory direction of travel looks clear, even if the detail and the depth of any pullback is less so.

This movement, alongside Trump’s tax cutting plans, could be a welcome boost to firms struggling in a tough market climate, although some caution that tearing up a regulatory framework can also cost firms time and money and that investors may still expect certain regulatory standards to continue regardless.

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HEDGE FUNDS REACT TO PRESIDENT-ELECT DONALD TRUMP’S SURPRISE VICTORY

Given the significance of last week’s shock US election result, managers were quick to inform their investors about the potential impact on their portfolios over the days, weeks, months and years ahead.

Donald Trump’s deregulatory agenda and tax reforms could be positive news for many firms while his plans for big infrastructure spending and tax cuts are likely to have a significant impact on credit markets. Certain sectors in the equities market, in particular financials and pharma, have been reacting positively in the hope of specific policy goals. Managers are also looking ahead to a number of upcoming European elections where establishment figures are at risk from a similar surge in populist anger to that displayed during the US election and recent Brexit referendum in the UK.

THE IMPACT OF PRESIDENT TRUMP

★ Globalisation, competition, internationalism are now firmly in the retreat. Inflation and protectionism promise a future which is not as kind to financial assets as QE and deflation have been. High asset prices now sit uncomfortably with the stated aims of the new thinking.★

Odey Asset Management founder Crispin Odey

★ We believe markets need to carefully observe the balance between the effect of moderate fiscal policy and protectionist and nationalist domestic policy against the potentially inflationary impact of a reduction in imported labour.★

LNG Capital founder Louis Gargour

★ We have heard through democratic processes in both Europe and the United States the frustration that so many people have with the lack of economic opportunity and the challenges they face. We need to listen to those voices.★

JP Morgan CEO Jamie Dimon

★ Our hopes are based on Trump’s pragmatism, his ability to adapt and his generally limited political allegiance. There is a chance that he could allow the political veterans in Congress to pass a fairly classical Republican campaign programme.★

Deutsche Asset Management CIO Stefan Kreuzkamp

★ In more ways than one, a Trump administration is a leap into the unknown and it may be wise to rush to pass judgement. Maintaining broadly balanced portfolios and waiting to see how events unfold may be the smartest plan.★

BlueBay Asset Management investment grade debt division co-head Mark Dowding

★ There is much more that we don’t know than we do know. It would be a mistake to use the rhetoric of a campaign as much of a guide to what policies are likely. We have entered an extremely ambiguous and interesting period of time.★

Bridgewater Associates founder Ray Dalio

★ I think the rest of the world should be very happy; they don’t have a rogue wildcard, they have a very common sense-oriented business executive who knows how to recruit talent and will take opinion from both sides.★

SkyBridge Capital founder Anthony Scaramucci

★ Market attention will now turn to Europe ahead of the Italian referendum, and the French and German elections – anything is now possible. While volatility is the name of the game, credit provides some attractive opportunities.★

CQS founder Michael Hintze
Hedge Fund Index

**HFRX HEDGE FUND INDEX**

(YTD 15 November 2016)

**HEDGE FUNDS**

- **0.9%**

**FUNDS OF HEDGE FUNDS**

- **-0.1%**

**MERGER ARBITRAGE**

- **3.0%**

**RELATIVE-VALUE**

- **-0.2%**

**EMERGING MARKETS**

- **-0.8%**

**EQUITY LONG/SHORT**

- **-0.8%**

**EQUITY SHORT BIAS**

- **2.8%**

**EQUITY MKT NTRL**

- **-4.2%**

**MACRO/ CTA**

- **-3.4%**

**EVENT-DRIVEN**

- **7.5%**

**MULTI-STRATEGY**

- **3.2%**

*As of end of Oct 2016*

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**EXPANSION**

**Cohen’s Point72 to double Singapore presence**

$11bn family office looks to add 30 staff to new city state offices

**POINT72 ASSET Management** is planning a twofold increase in Singapore-based staff after moving operations in the city state to a larger office.

The $11bn firm opened its Singapore office in 2009 with six employees and has since grown to 27, nine of whom joined this year.

Point72 first established a presence in Asia-Pacific with the opening of its Hong Kong office in 2006 and has since grown to more than 140 staff in the region.

It recruited 31 people for its Hong Kong, Singapore and Tokyo offices in the first eight months of 2016, including 21 on the investment side.

Point72 this year set up Blue Swell Asset Management in Singapore, led by Tomofumi Oda, to bet on Japanese stocks. It was the first such unit it set up to give an Asia-based PM more autonomy.

The firm’s new 8,880 square foot office space in Singapore’s Marina Bay incorporates upgraded video conferencing capabilities, informal team gathering spaces, an open pantry and seating area, and a wellness room.

“We are making a push to find, attract, and retain the industry’s brightest talent around the world, and we see Singapore as an important source of that talent,” said Marc Desmidt, CEO of Point72’s international business.

Elsewhere, Steve Cohen’s firm has boosted London operations with the hire of an ex-Systematica quant analyst, Liguori Jego, as a portfolio manager within its Cubist Systematic Strategies unit.

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**CTA giants left deep in red after Trump victory**

LARGE CTAs slumped to a third consecutive month of losses in October and many managers are languishing deep in red this year having been hit by market reversals around the US election.

CTAs suffered a run of nine consecutive days of losses through 4 November, with Société Générale’s benchmark SG CTA Index losing -3% and the SG Trend Index falling -4.8%, as markets moved away from established trends.

On Monday 7 November, markets reverted back to established trends in the wake of FBI’s statement on Clinton’s emails, which was seen as positive news by investors. It prompted the CTA index to jump 0.9%, while the trend index, which tracks trend-following giants, leapt 1.4%

Both were broadly flat on US election day before giving back -0.9% and -0.5% on 9 November amid market jitters following Donald Trump’s election.

According to the SG Trend Indicator, an in-house trend-following model, the biggest losses were from long positions in the Mexican peso, Nikkei 225 and KOSPI stock indices.

CTAs suffered further losses on Thursday and Friday to leave the CTA index down -0.3% YTD, and SG Trend Index down -7.7%.

By comparison, the HFRX Global Hedge Fund Index was up 0.9% YTD as of 11 November.

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**ROKOS LOOKING TO RAISE $2BN INVESTMENT**

Chris Rokos is reportedly seeking to raise as much as $2bn to boost assets at his London investment firm following a lucrative year for investors.

Rokos will reopen his hedge fund on 1 February and expects to raise the capital within a month.

The new money will boost assets under management at Rokos Capital Management to about $6bn.

The money manager opened for business in September 2015 but stopped accepting fresh capital at the start of February after raising $3.5bn.

Rokos, one of the few macro funds to make money this year, counted Blackstone Group among its initial investors.

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**SEC chair Mary Jo White is to step down at the end of President Obama’s tenure, after nearly four years at the regulator. The departure will mean only two commissioners will remain on the board with Commissioner Kara Stein leaving next year too when her term expires. President-elect Donald Trump will nominate four commissioners in the next 12 months. Announcing her departure, White said: “It has been and will always be critical for this agency and the public that the SEC remain truly independent”. White, a former federal prosecutor and securities lawyer, is currently looking to drive through SEC Proposed Rule 18F–4, which limits derivatives usage within mutual funds.**
**PEOPLE MOVES**

**BTG Pactual global hedge fund COO departs bank**

Neil Sadler on gardening leave as Brian Reed assumes ops duties

GRUPO BTG PACTUAL’S global hedge fund unit COO Neil Sadler has left the firm.

Sadler departed BTG Global Asset Management in August, having been in the role for around two years since September 2014, when he took over from Dayna Corlito.

He had been with BTG for over six years, joining in January 2010 as a London-based regional head of operations.

Prior to that he was head of operations at Lentikia Capital between August 2007 and December 2009, according to his LinkedIn profile.

Between 2005 and 2007, he was a fund accounting manager with GlobeOp Financial Services.

BTG Global AM operations manager and former GlobeOp colleague Brian Reed has taken over Sadler’s duties, a BTG spokesperson said. Sadler is on gardening leave. His next role is not yet known.

BTG Pactual’s hedge fund arm has offices in London, New York and Hong Kong, São Paulo and Rio de Janeiro.

The banking group’s AuM dropped from R$24.6bn ($7.1bn) at the end of 2015, to R$3.6bn ($1.1bn) in the third quarter, according to its latest results, published on 9 November.

Last week, HFMWeek revealed that ex-BTG Pactual GEMM Fund CIO Antoine Estier is launching global macro hedge fund business.

**PEOPLE MOVES**

**Omni Partners CEO Coates steps down**

OMNI PARTNERS CEO Peter Coates has stepped down after two and a half years in the role as the firm focuses on its ‘core’ strategies.

It is understood that Coates, who left on 31 October, will not be directly replaced and Omni’s existing management team will continue to oversee the day-to-day operations of the firm.

“Following the ongoing success of the existing secured lending and event strategies, Omni has decided to concentrate on those investment strategies rather than strategically diversify its offering,” a spokesperson said.

Coates, formerly head of Europe at FoHF Lighthouse Partners, was tasked with growing Omni’s business when he joined in 2014, which at the time included I/s equity and macro strategies, shuttered in 2015 and 2016 respectively.

**PEOPLE MOVES**

**MARATHON IR PRO JOINS ZAIS GROUP LONDON OFFICE**

Structured credit specialist ZAIS Group has hired former Marathon Asset Management investor relations and sales vice-president Iris Arrington as part of efforts to boost its European office.

Arrington joins the $3.8bn Red Bank, New Jersey-based firm’s London office as vice-president of client relations.

ZAIS has also hired Ahrash Daneshvar as managing director from Morgan Stanley, where he spent nearly two decades in structured credit and derivatives.

Based in the portfolio management team, Daneshvar will focus on ZAIS’s credit derivatives and quantitative trading strategies.

**THE WEEK**

Hugh Hendry’s (pictured) Eclectica is betting on a break-up of the European Union in a trade he said could deliver up to 35% gains. Hendry said European politics posed the biggest market risk of 2017, with an impending French election the most likely trigger of fresh market ructions. “The biggest risk to the global economy is the acute and impending political crisis in Europe, which monetary policy does not have the tools to resolve,” Hendry told the Reuters Global Investment Outlook Summit in London.

Hendry made his name in the depths of the financial crisis after posting positive returns in 2008 when many of his peers suffered steep losses.
People Moves

City Financial to take on more Fortress staff after Thorne hire

$42bn asset manager is beefing up its ops team as it eyes growth

CITY FINANCIAL will be taking on a number of Fortress staff following the hire of its hedge fund COO Lou Thorne, HFMWeek understands.

The UK-headquartered asset manager announced the hire of Thorne earlier this week as global COO, based in New York, as it looks to beef up its operational infrastructure and attract new strategies.

City Financial acquired the $180m in AuM Fortress Convex Asia Fund as well as its Singapore management team in July and has over $4bn across long-only multi-asset UCits funds and alternative funds, incorporating long/short global equity, credit macro, commodities, volatility, long/short Japanese equity and Asian macro strategies.

Key funds include the $2bn Cumulus Fund, a weather expertise-based commodities strategy, and Decca Capital’s $500m credit-focused Decca Fund, run by ex-Hutchin Hill portfolio manager Shahraab Ahmad, which hard-closed to new investments in February.

Following Thorne’s hire, the firm is understood to be taking on Simon Taylor, a vice president and senior ops pro based in Fortress’s London office. Taylor, who has been with Fortress since 2011, previously also worked with Thorne at Tudor.

City has also hired a trio of Fortress staff members in New York, including director of middle office Justin Brodersen, who has been with Fortress since 2014 and was previously a trader with Hutchin Hill and Bank of America.

William Dumas, co-director of operations in Fortress’ liquid markets arm since 2011, is also understood to be joining City alongside fellow co-director of operations Amy Wong.

City Financial is understood to be looking to add at least two more strategies next year, in Europe and Asia, and will also be looking at US opportunities following Thorne’s hire.

Most of the $4.5bn in Fortress’ liquid markets division is now run by Gaticule Asset Management, a so-called “affiliated manager” following the transition of the Fortress Asia Macro Funds last year. Fortress holds a minority stake in Gaticule.

City Financial and Fortress declined to comment.

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Surveys

Will Donald Trump be able to push through a meaningful financial deregulation agenda?

Hedge funds are confident that a Donald Trump presidency will deliver meaningful financial deregulation, according to HFM’s latest online poll. Some 43% of respondents think that strong Republican congressional support should allow Trump to deliver significant change, with a roll-back of Dodd-Frank a top priority. Around half (52%) thought that some regulation will be stripped out but fundamental reforms will be difficult to achieve. A minority (15%) thought Trump’s plans will be dropped when they met resistance from lobbyists and Democrats.

States move to restrict non-compete agreements

Marshall Babson, employment counsel with law firm Seyfarth Shaw, says more hedge funds are now using non-competes. Babson says hedge funds are looking to add at least two more strategies next year, in Europe and Asia, and will also be looking at US opportunities following Thorne’s hire.
INVESTOR IN BRIEF

Technology-driven investment platform Artivest has bolstered its product structuring and clients services teams after hiring Stacie Yates and Justin Rooney from UBS Wealth Management and Third Avenue Management respectively. The firm connects high-net-worth investors and advisors with hedge and private equity (PE) investment opportunities at lower minimums.

The Orange County Employees Retirement System has begun “selectively issuing redemption notices” to some of its hedge funds as its staff prepare a transition plan for the asset class. The $32bn scheme expects to have fewer hedge funds and absolute return strategies in its portfolio by year-end, it said in an update to its marketing guidance.

BERNE College is unwinding about $42m in hedge fund commitments this year from its $1.1bn endowment, according to Bloomberg. For the year ended 30 June, the endowment’s hedge fund allocation lost 2.5%, contributing to an overall investment decline of 1.1%, “the performance net of fees wasn’t paying off,” said Jeff Amburgey, vice-presiden for finance at the private Kentucky college.

INVESTOR IN BRIEF SPONSORED BY

REDEMPTION

Cambridge Retirement System weighs up HF exit

$1.1bn Massachusetts scheme could pull $91.3m from PRIT portfolio

THE CITY OF Cambridge Retirement System (CRS) is considering pulling out of hedge funds, minutes from an October meeting have revealed.

CRS, which has $1.1bn in AuM, invests $91.3m in hedge funds through a portfolio run by the $63.2bn Massachusetts Pension Reserves Investment Trust (PRIT).

PRIT, which invests on behalf of the state’s public pension funds, has exposure to equity, event-driven, global macro, multi-strategy and relative value hedge fund strategies, according to its website.

Underlying managers with direct hedge fund mandates from PRIT include Winton and Cantab, while Aberdeen Asset Management and Paamco are among the fund’s FoHF investments.

CRS meeting minutes show the scheme passed a motion last month to review whether to continue investing in hedge funds.

The pension’s investment consultant, Segal Rogerscasey, is tasked with conducting a risk management and asset allocation analysis, which may be reviewed by a second consultant.

The move follows concerns regarding hedge fund performance voiced in previous meetings.

Board member Michael Gardner, who proposed the motion to review CRS’s exposure, remarked that returns have been “quite low” and that the asset class had “continued to underperform”, according to minutes from 12 September and 31 August meetings respectively.

CRS will likely make a decision on their hedge fund exposure when they next meet on 28 November. A spokesperson for CRS declined to comment.

Consultant

MJ Hudson acquires Allenbridge

MJ HUDSON HAS acquired investment advisory firm Allenbridge and outsourced fund management services provider Tower Gate Capital.

Allenbridge advises pension funds and other institutional investors on asset allocation, manager selection and investment governance.

The acquisition brings MJ Hudson more than 40 institutions, wealth managers and fund managers, advising clients with assets in excess of £120bn ($150.3bn). Allenbridge will also allow the firm to provide research, ratings and panel advisory services to over 500 independent financial advisers and private investors.

“We’re confident that merging our distinctive organisations will provide even better service for our clients,” said Allenbridge CEO Odi Lahav.

CONSULTANT
The SEC has charged a former film producer and self-proclaimed private equity executive with defrauding hedge fund investors of $6m.

The regulator said David Bergstein stole millions from investors in Californian Weston Capital Asset Management in 2011 and 2012.

It claimed he used the money for purchases with a firearms dealer, an antique watch and jewellery retailer and a bonsai tree nursery.

The SEC complaint alleges the scheme relied on a series of intricate transactions by Weston Capital Asset Management with two of its unregistered hedge funds, Weston Capital Partners Master Fund and the Wimbledon Fund SPC Class TT Segregated Portfolio.

In one transaction, the SEC alleges Bergstein misappropriated at least $2.3m of money that was purportedly meant for investments in medical-billing businesses.

The money also helped Weston Capital Asset Management conceal the true nature of the transaction from Weston investors.

In another allegedly fraudulent transaction, Bergstein stole more than $3.5m also purportedly meant for investments in medical-billing businesses.

In June, the SEC filed a suit against Weston Capital Asset Management and its founder and president, Albert Hallac, for violations of antifraud provisions.

The US Attorney’s Office for the Southern District of New York announced criminal charges against Bergstein and GC at Weston on 9 November.

“The use of elaborate corporate transactions to mask old-fashioned theft of investor money will not prevent the SEC from enforcing the federal securities laws and protecting investors,” said Andrew Calamari, director of the SEC’s New York Regional Office. “Violators will be held to account no matter the artifice used to perpetrate their frauds.”

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**ALGO TRADING**

**Trump win leaves CFTC’s Reg AT plans in doubt**

Regulator had agreed to concessions on source code access

Lawyers have questioned whether the CFTC’s controvertial Reg AT proposal will be passed following Donald Trump’s US election victory.

With the prospect of a Republican-dominated CFTC commission on the horizon, and a tight window before Trump’s inauguration on 20 January to pass a supplementary proposal on source code access and algo firm registration, there are doubts over the future of the contentious regulation.

In August, President-elect Trump pledged that upon taking office he would issue a temporary moratorium on new federal agency regulations, effectively setting a time limit on the CFTC’s plans, if he sticks to his pledge.

A revised Reg AT proposal, announced on 4 November, requires a 60-day comment period, which even if opened this week would leave only a few days before Trump’s inauguration to pass the regulation into law, lawyers point out.

The CFTC is obliged to review and analyse each comment before scheduling a commission meeting and promulgating the final rule.

Lawyers have questioned whether the CFTC’s controversial Reg AT proposal will be passed following Donald Trump’s US election victory.

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The CFTC is obliged to review and analyse each comment before scheduling a commission meeting and promulgating the final rule.

**PEOPLE MOVES**

**Trump to ‘dismantle’ Dodd-Frank reforms**

President-elect Donald Trump has confirmed he is aiming to “dismantle” the Dodd-Frank financial services reform.

The 2010 law, one of the flagship legislative achievements of outgoing President Obama, regulated hedge funds for the first time in a wide-ranging overhaul of financial regulation.

In a statement published on 10 November, Trump’s transition team said the legislation was “sprawling and complex”.

“The Dodd-Frank economy does not work for working people,” it said. “Bureaucratic red tape and Washington mandates are not the answer. The Financial Services Policy Implementation team will be working to dismantle the Act and replace it with new policies to encourage economic growth and job creation.”

See Page 16-19 for more analysis of Trump’s impact on hedge funds.

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**Jive Investments targets $300m for Brazil NPL fund**

São Paulo manager to start capital-raising ahead of Q1 first close

**Brazilian distressed investment specialist Jive Investments is preparing a second fund targeting non-performing loans (NPLs) in the country, sister title Alt Credit Intelligence has learned.**

São Paolo-based Jive closed its first fund focused on corporate NPLs in July 2015 at R$500m ($145m) and is now set to go to market again with the Jive Distressed Fund II.

The firm, which has around BRL800m ($232m) in total AuM, is hoping to hit a first close of BRL1.25bn ($150m) in the first quarter of 2017 and a final close of BRL1.03bn ($300m) by mid-2017.

The Cayman-domiciled fund, which has a 2/20 fee structure, will seek to invest in corporate NPLs in the country’s major banking institutions and across distressed real estate and domestic SMEs.

There is a scheduled investment period of three years and an eight-year term set for the fund.

Mired in political crisis, a long-running recession which has seen unemployment hit nearly 12%, and a depressed currency, now is a “perfect moment” for distressed investing in Brazil, according co-founder Alexandre Cruz.

Research from the Central Bank of Brazil shows the volume of NPLs in the country has increased 85% in the past five years.

Jive’s debut NPL fund, which garnered 70% of investment locally with more than 130 Brazilian family offices contributing, has 15% of remaining capital and has delivered close to 30% net returns since inception.

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**EX-AHL COMMODITIES HEAD TO LEAD GRESHAM QUANT PUSH**

New York commodities giant Gresham Investment Management is understood to be developing a new quant strategy.

Former AHL commodities head Scott Kerson joined Gresham in May as head of systematic strategies, according to his LinkedIn profile, while Thomas Babbedge, former senior researcher for Winton, was brought on as chief scientist in June.

Gresham currently manages $7bn through a variety of strategies designed to provide diversified exposure to commodity futures.

Its flagship long-only Tangible Asset Program (TAP), which has a near three-decade track record, balances “rules-based construction with market-driven implementation” and has “a systematic interim rebalancing strategy.”

The firm also runs enhanced commodity index strategies. The new hires are part of a quant build-out, HFMWeek understands.

Prior to AHL, where he worked for five years, Kerson was at Ospraie Management and Amaranth Advisors before founding Alpha Dog Commodities, a California-based quant consultancy focused on global commodity markets, in 2009.

Babbedge joined Winton in 2007 working in a number of positions including being founder David Harding’s personal researcher between 2010 and 2012.

Chicago-based Nuveen Investments acquired a 60% stake in Gresham in December 2011, when the firm managed nearly $28bn for a variety of institutional clients.

Gresham was founded in 1992 by commodity futures pioneer Henry Jarecki, having been trading the TAP program since January 1987.

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**Academia to launch $100m quant fund**

ACADEMIA CAPITAL MANAGEMENT is set to launch a new $100m systematic fund, one of Hong Kong’s first A and H-share quant funds available to offshore investors.

The Academia China Absolute Return Fund will employ proprietary quant models, adapted to the Chinese market to generate outperformance, and will trade through Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect.

Academia, which sits on the Hong Kong incubator platform OP Investment Management (Opin), expects the open-ended quant fund to launch before the end of 2016.

The fund will be managed by Academia founder Charles Wang and his team, in co-operation with Opin.

“It will provide institutional investors with deep access to China under the professional management of a regional team,” said Opin CEO Alvin Fan.

Academia was founded in July 2015 by Wang, an ex-Putnam Investments and Acadian Asset Manager executive.

More recently Wang was CEO at Hong Kong-based E-Fund Management and CIO at Bosera Asset Management in Shenzhen.
Muzinich preps two funds for ex-Wells Fargo loans team

Credit specialist to debut secured loan and multi-asset strategies

CORPORATE DEBT specialist Muzinich & Co is launching two secured loan funds with the team hired from Wells Fargo investment arm ECM Asset Management in the summer.

In August, $27.6bn Muzinich hired ECM’s sub-investment grade team, made up of Torben Ronberg, Stuart Fuller, Sam McGairl and Alex Woolrich.

All four collectively ran the $346m ECM Senior Secured Credit and the $498m ECM Loans strategies, according to documents reporting 2015 assets under management on its website.

Led by Ronberg, the team took up their roles at Muzinich this week to focus on the launch of the Muzinich European Loans Fund, which will trade secured loans, and the multi-asset Muzinich Senior Secured Fund.

The un-leveraged European fund will invest in loans with a minimum size of €200m ($215m) while the multi-asset portfolio will primarily buy into secured loans and senior secured high-yield bonds.

Both funds sit under a newly established Muzinich Icav umbrella and will be aimed at institutional investors including pension funds and insurance companies.

“We have built a 10-year benchmark-beating track record, delivering strong single-digit annualised returns through senior secured loan strategies. We’re confident that this asset class can continue to deliver attractive risk-adjusted returns,” said Ronberg.

“We believe there’s growing interest in senior secured loans from pension funds and other institutional investors.”

Muzinich founder George Muzinich added: “These funds build on our move into the European private debt market over the past five years and should offer a valuable alternative for institutional investors looking further afield in the hunt for good risk-adjusted returns.”

The ECM Senior Secured Credit Strategy, which invested in bank loans and bonds, made gains of 4.7% since its inception in 2012, while the ECM Loans strategy, focused on sub-investment grade credit, returned 5.1% over the same period, according to reports.

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Macromoney to launch on Sapia Partners

WARSAW-BASED Macromoney is launching on Lawson Conner’s Sapia Partners platform, HFMWeek has learned.

The equity biased global macro manager opened in 2013 with seedings from founder and fund manager Maciej Wiśniewski, who raised the capital by selling his stake in his previous firm, Investors Investment Fund Company.

Since inception the fund has grown from $3.5m in AuM to $70m, and the firm wants to reach $100m on Sapia, an AIFMD and UCits Manco, before it begins to operate independently.

Wiśniewski added that once the firm reaches the milestone it will move staff permanently to the UK, but maintain a presence in Poland.

Wiśniewski has 20 years of experience in investment management, previously working as director of trading for BZ WBK AIB Asset Management and as a proprietary trader for LG Bank.

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SEARCH ACTIVITY

A WEEKLY COMPENDIUM OF RECENT HEDGE FUND SEARCHES AND INVESTMENT MANDATES

To list here, contact Jasmin Leitner at j.leitner@hfmweek.com

Continued from page 8, compiled by HFMWeek

SEARCH ACTIVITY

TOTAL AUM $221.4m
CONSULTANT Cambridge Associates
ACTIVITY Topped up Pimco and Wells Fargo allocations

ORANGE COUNTY EMPLOYEES’ RETIREMENT SYSTEM
TOTAL AUM $13bn
CONSULTANT Aksia/Pension Consulting Alliance
ACTIVITY Has put Q5 on watch list

KENTUCKY RETIREMENT SYSTEMS
TOTAL AUM $12bn
CONSULTANT RVK
ACTIVITY Redeeming from hedge funds

CONNECTICUT RETIREMENT PLANS AND TRUST FUNDS
TOTAL AUM $29bn
CONSULTANT Aon Hewitt
ACTIVITY Selected five managers for high-yield debt mandate

NEVADA SYSTEM OF HIGHER EDUCATION

UNIVERSITY OF TEXAS INVESTMENT MANAGEMENT COMPANY
TOTAL AUM $36.8bn
ACTIVITY Reduced hedge fund allocation by $400m this year, remains bullish on macro and l/s equity

TEACHERS’ RETIREMENT SYSTEM OF LOUISIANA
TOTAL AUM $17bn
ACTIVITY Committed $300m to private markets debt strategies

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM
TOTAL AUM $24bn
ACTIVITY Boosted direct lending with $75m Incline Aviation allocation

ORANGE COUNTY EMPLOYEES’ RETIREMENT SYSTEM
TOTAL AUM $13bn
CONSULTANT Aksia/Pension Consulting Alliance
ACTIVITY Approved $125m Kayne Anderson allocation

OCTOBER 2016

RHODE ISLAND
TOTAL AUM $9bn
CONSULTANT Cliftwater/Pension Consulting Alliance
ACTIVITY Has selected eight managers from which to redeem a collective $500m

NEW YORK STATE COMMON RETIREMENT FUND
TOTAL AUM $38bn
ACTIVITY Allocated $300m to mezzanine loan manager Brightwood Capital Advisors

MUNICIPAL EMPLOYEES’ ANNUITY AND BENEFIT FUND
TOTAL AUM $44bn
CONSULTANT Has issued RFP for $100m equity hedge fund mandate, to be split across two managers

NEVADA SYSTEM OF HIGHER EDUCATION

BT FUNDS MANAGEMENT (NZ)
TOTAL AUM $9bn
ACTIVITY Launched alternatives offering in Sept, K2 Advisors added as sub-advisors

MUNICIPAL EMPLOYEES’ ANNUITY AND BENEFIT FUND
TOTAL AUM $44bn
CONSULTANT Has issued RFP for $100m equity hedge fund mandate, to be split across two managers

Auto-enrolment - act now to be ready for the new requirements

With almost 400,000 employers reaching their staging date by October 2016, early planning is imperative to successfully manage the preparation process.

We know that auto-enrolment implementation can feel like a burden, which is why we’ve created our comprehensive advice and support service. Designed with you in mind, our integrated service aims to remove the stress of auto-enrolment and provide you with an overview of the required changes, so that you are well-equipped to deal with the challenges ahead.

Visit www.understandautoenrolment.co.uk or contact our Financial Planning team to find out more:

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LAUNCH ACTIVITY

A WEEKLY COMPENDIUM OF HEDGE FUND LAUNCH ACTIVITY

To list here, contact Sam Macdonald at s.macdonald@hfmweek.com

Continued from pages 10 & 11, compiled by HFMWeek

REPORTED IN OCTOBER 2016

- **Gamma Capital**
  - **Strategy**: Multi-strat FoHF
  - **Launch Date**: Nov 16

- **Boronia Capital**
  - **Name**: Risk premia plus
  - **Strategy**: Risk premia alpha
  - **Launch Date**: Sep 16

- **Boronia Capital**
  - **Name**: Alt risk premia
  - **Strategy**: Alt risk premia
  - **Launch Date**: Sep 16

- **Saliency Partners**
  - **Name**: Salient MLP & Midstream Income Fund
  - **Strategy**: MLP energy
  - **Launch Date**: Oct 16

- **Sea Channel Partners**
  - **Strategy**: Middle-market credit neutral
  - **Launch Date**: Jan 17

- **Prana Capital Management**
  - **Strategy**: Long/short equity market neutral
  - **Launch Date**: Apr 17

- **Dricotopax Capital**
  - **Strategy**: Multi-strat/global macro
  - **Launch Date**: Nov 16

- **Apera Capital**
  - **Strategy**: Private debt
  - **Launch Date**: Q1 17

- **Elephant Asset Management**
  - **Strategy**: Emerging markets
  - **Launch Date**: Nov 16

- **Cognios Capital**
  - **Name**: Cognios Large Cap Growth Fund
  - **Strategy**: Equity L/S
  - **Launch Date**: Oct 16

- **Cognios Capital**
  - **Name**: Cognios Large Cap Value Fund
  - **Strategy**: Equity L/S
  - **Launch Date**: Oct 16

- **Bayshore Capital Advisors**
  - **Name**: Global Alternatives Income Fund
  - **Strategy**: Short-duration private credit
  - **Launch Date**: Q4 16

- **Lazarus Management**
  - **Name**: Lazarus Behavioural Finance Fund
  - **Strategy**: Behavioural finance
  - **Launch Date**: Q3 16

- **Gamma**
  - **Name**: Gamma Iceland Opportunities Fund
  - **Strategy**: Iceland opps
  - **Launch Date**: Sep 16

- **GMMA**
  - **Name**: Gamma Iceland Macro Fund
  - **Strategy**: Macro Iceland
  - **Launch Date**: Sep 16

- **Architech Capital Management**
  - **Strategy**: TMT-Asia focus
  - **Launch Date**: Oct 16

- **Ramius**
  - **Name**: Ramius Merger Arbitrage UCITS Fund
  - **Strategy**: Merger arbitrage
  - **Launch Date**: Aug 16

- **KLS Diversified**
  - **Name**: KLS Fixed Income UCITS Fund
  - **Strategy**: Global credit
  - **Launch Date**: Sep 16

- **Trebuchet Capital Management**
  - **Strategy**: Event-driven
  - **Launch Date**: Oct 16

- **Lyon Asset Management**
  - **Name**: Lyon Evolution Fixed Income Fund
  - **Strategy**: Multi-strat credit
  - **Launch Date**: Aug 16

- **Postmodern Partners**
  - **Strategy**: Volatility arbitrage
  - **Launch Date**: Q1 17

- **Nordea Asset Management**
  - **Name**: The Nordea 1 – Global Long Short Equity Fund
  - **Strategy**: L/S equity
  - **Launch Date**: Sep 16

- **Covenant Capital**
  - **Name**: CMC Tactical Growth Program
  - **Strategy**: Market-neutral
  - **Launch Date**: Sep 16

- **Midnight Holdings**
  - **Strategy**: Credit and equity event-driven
  - **Launch Date**: Q3 17

- **Columbus Circle Investors**
  - **Name**: Triumph CCI Technology L/S Fund
  - **Strategy**: L/S tech equity
  - **Launch Date**: Q3 17

- **Ossia Partners**
  - **Name**: Ossia Partners Fund
  - **Strategy**: Global long/short equity
  - **Launch Date**: H1 17

REPORTED IN SEPTEMBER 2016

- **Allianz GI**
  - **Name**: Allianz Structured Credit Return Fund
  - **Strategy**: Structured credit
  - **Launch Date**: Sep 16

- **Casern Capital**
  - **Name**: Seven Fortress
  - **Strategy**: Distressed debt
  - **Launch Date**: Apr 17

- **Strobuz Capital**
  - **Strategy**: Global macro
  - **Launch Date**: H1 17

- **Blockhouse Capital Management**
  - **Strategy**: L/S Equity and Credit
  - **Launch Date**: Q4 16

- **Tages Capital**
  - **Name**: Tages Alternative Risk Premia Fund
  - **Launch Date**: Sep 16

- **Eagle View**
  - **Name**: Eagle View Vega Fund
  - **Strategy**: CLO
  - **Launch Date**: Sep 16

- **Seven Investment Management**
  - **Name**: Seven Fortress
  - **Strategy**: Equity market-neutral
  - **Launch Date**: H1 17

- **Fair Oaks Capital**
  - **Name**: Fair Oaks Dynamic Credit UCITS Fund
  - **Strategy**: CLO UCITS
  - **Launch Date**: Sep 16

- **QW Capital**
  - **Name**: QW Equity Market & Sector Neutral UCITS Fund
  - **Strategy**: Quantum market-neutral
  - **Launch Date**: Oct 16
Boutiques can beat the big firms with alternative UCITS

Guillaume Touze

Boutiques can beat the big firms with alternative UCITS

Trust has become a major issue in the hedge fund industry and performance alone is no longer sufficient to convince investors of the attractiveness of a manager or fund. Hedge fund managers cannot shy away from this issue; indeed they must adapt to this challenging fundraising environment if they are to survive. While there are a number of ways in which managers can act to earn the trust of prudent investors, utilising the platform outlined by the UCITS directive has become an especially powerful tool.

Deutsche Bank’s recent 2016 Alternative UCITS Survey confirms the growing popularity of such funds among investors. Total assets managed by alternative UCITS funds have grown by 26% annually since the 2008 global financial crisis to reach close to €400bn ($431bn). Almost 70% of respondents to the survey allocate to alternative UCITS funds and two-thirds expect to increase their allocations this year.

This growing demand from investors is being met by a mixture of participants moving into the UCITS space. This ranges from large traditional asset managers expanding their alternatives coverage to hedge fund managers looking to differentiate themselves from offshore competitors. It has been argued the traditional players have a big advantage in terms of distribution but I believe that boutique managers have major advantages in terms of performance – they are hungrier, more motivated, more focused and more agile.

Hedge funds are not necessarily an easy fit for UCITS requirements given their traditional illiquidity and opaque offshore fund structures. When founding Quadra in 2013, I strongly believed that in the future investors would demand increased transparency, accessibility and liquidity – a symptom of a recent period of underperformance and the more cautious approach taken by investors since the 2008 financial crisis. I concluded that a UCITS platform would meet investors’ demands and was well correlated with our key principals. Quadra is a client-centric hedge fund, and we firmly believe in providing investors with the flexibility and access that they want and offering them opportunities to provide input.

However, there are logistical challenges in creating the right operational infrastructure for UCITS. The requirements for the establishment of the UCITS platform are onerous and there is a considerable ongoing workload to ensure compliance with the more exacting regulations that are entailed.

At Quadra, it took us around nine months to establish the necessary infrastructure, including a Luxembourg regulated management company and Sicav structure, and to meet the requirements of various regulators such as the CSSF and FCA. Ongoing restrictions include the requirement of biweekly liquidity (at a minimum) and some limitations on strategies acceptable in an alternative UCITS fund. Such rigorous demands are off-putting for hedge funds that are used to simple, off-the-shelf packages, offering offshore structures that can be established in just one day. However the extra effort UCITS demands from managers can pay dividends in the long run and the compelling list of comparative advantages offered by UCITS continues to grow.

A UCITS platform can have a direct impact on the attractiveness of the investment opportunity. As a result of Solvency II, investors employ risk budgeting systems, where UCITS offers immediate tangible benefits. UCITS funds receive a lower risk weighting than their offshore competitors, benefitting investors via their lower capital allocation requirements.

Less tangible, but still significant, is the reputational benefit managers can gain by offering a UCITS fund. The significant amount of effort required to establish the institutional platform and the substantial maintenance that it requires, demonstrates the ongoing commitment of the manager to the core attributes desired by investors, namely transparency, accessibility and liquidity. The added sense of security this provides can therefore help to influence investors’ allocation decisions.

Finally, one particularly topical advantage for London based managers is the Brexit-resistant nature of the UCITS structure. By using a Luxembourg-based management company, UCITS funds benefit from an investment licence that is passported across the EU, negating any concerns managers may have regarding the implications of a ‘hard Brexit’.

Guillaume Touze is CEO and founder of Quadra Capital

President-elect Donald Trump is relying on key hedge fund managers to make his transition to government in January as he signals his plans to roll back certain rules.

The transition team includes Dune Capital Management founder Steven Mnuchin, who was co-chair of the campaign, and SkyBridge Capital founder Anthony Scaramucci, who was a key loyalist during the election battle.

Scaramucci is the transition economic adviser and said he will advise the president to immediately scrap 10% of regulations from every federal agency.

Rebekah Mercer, the daughter of Renaissance Technologies founder Robert Mercer, is also on the team after her family donated and supported the president-elect in recent months.

The transition team has boldly insisted it wants to “dismantle” Dodd-Frank with specific focus on ending key bank balance sheet restrictions.

Names in the running for Treasury secretary include Dodd-Frank belte noire and House Financial Services Committee chair Jeb Hensarling, who has repeatedly branded the law as “regulatory waterboarding”. He has also repeatedly backed legislation to roll back reporting requirements for private equity managers and other private funds.

Another influential figure in the transition team is former SEC commissioner Paul Atkins, who sat on the regulator from 2002 to 2008.

Atkins was strongly opposed to any hedge fund regulation and successfully blocked plans for registration in 2006. Registration was later enacted as part of Dodd-Frank.

Atkins is understood to be close to SEC Commissioner Dan Gallagher who is being tipped by some to replace Mary Jo White. The US president can designate a new chair among existing commissioners.

The uniting feature of all key finance personnel in Trump’s transition is a desire to cut back on regulations and a new tone on financial services.
The Inside Hedge

Financial Follies fails to show sympathy for Trump or Boris

New York bash sees financial hacks entertain revellers with political skits

Whether as a stress release or a creative distraction from the sober realities of the age we live in, writing can be a great hobby. For Michael Denoon-Slater, Lawson Conner’s recently appointed capital introductions head, it’s also a way of creating a legacy.

“I’ve kept a journal since I was eight and in the last few years I’ve realised that I want something to tangible to pass on to my young kids,” the budding writer told Inside Hedge, having recently signed a contract to have one of his short stories published since last Wednesday morning.

The UK Foreign Secretary Boris Johnson, seen perhaps as the figurehead of Brexit in the US, also took plenty of ribbing from the theatrical hacks who looked like they saved a bit of money in the wig department thanks to a similarity in bouffants between the larger-than-life politicians from either side of the Pond.

Lawson Conner head to get short story published

The Sandpit, based on Denoon-Slater’s childhood memories of growing up in the Scottish Highlands, will be published next year, and he hopes to put together a collection of short tales at some point.

The Cantonese and Russian speaker is also working on a fictional account of anti-piracy and anti-smuggling in Hong Kong, based on his own experiences working as a Royal Navy officer. He started writing short stories last year as a way to “learn the craft”.

“I’ve written about 20 short stories now and I can’t believe it’s been picked up,” he said.

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The surprise election of Donald Trump as US president last week could usher in a frenzy of de-regulation and tax cuts that could re-shape the hedge fund sector. President-elect Trump has promised a moratorium on all federal regulations when he enters office, throwing major SEC, Department of Labor and CFTC rules into doubt.

The Republican party has a majority in both houses of Congress as well as the presidency, smoothing the way for possible significant legislative action next year.

Earlier this year, Trump backed congressional Republican legislation to drastically alter the regulatory landscape by “dismantling” Dodd-Frank and scrapping the Volcker rule and last week he confirmed that repealing Obama’s response to the 2008 financial crisis would be a priority. In addition, his tax plans could see enormous cuts for high-earning hedge fund managers while big corporate tax cuts could also be on the horizon.

Dodd-Frank
President-elect Trump last week pledged to repeal the Dodd-Frank financial reforms that ushered in hedge fund regulation for the first time. In a statement, published on 10 November Trump’s transition team said the 2010 Act was a “sprawling and complex” piece of legislation.

“The Dodd-Frank economy does not work for working people,” the statement said. “Bureaucratic red tape and Washington mandates are not the answer. The Financial Services Policy Implementation team will be working to dismantle the Dodd-Frank Act and replace it with new policies to encourage economic growth and job creation.”

He has backed the Financial Choice Act, proposed by House Republicans earlier this year, as a replacement regulatory regime. The act would abolish the Volcker rule, impose significant changes to existing regulatory agencies and impose a much higher burden on passing financial regulations.

The Republican plan would allow banks to invest in hedge funds again and proprietary arms would be allowed to rejoin banks after being banned under the current Volcker rule.

Major banks have spent years divesting their stakes in hedge funds in order to comply with the strict separation of retail and proprietary banking arms as required under Volcker, named after former Federal Reserve chairman Paul Volcker.

“We are hopeful we can roll-back on lots of this stuff although the train has left the station in some areas,” said one CCO at a $10bn hedge fund.

“Some of us were spun out of banks. It has happened already so that isn’t going to be rolled back even if they relax some of the requirements. But at least there will be a pause in some of the rulemaking.”

Lawyers have expressed caution over the potential for more regulatory upheaval, claiming many aspects of Dodd-Frank have been fully enacted already and would be expensive to unwind.

“You are half-pregnant with it so are you going to spend all that money undoing it?” said one former senior SEC staff.

The Republican bill would also scrap the Financial Stability Oversight Council (FSOC) power to designate firms as systematically important financial institutions (SIFIs). Some of the largest hedge funds feared they could be captured under the rule and subject to stricter leverage and capital requirements. In April, FSOC set out its plan to curb leverage at the largest hedge funds noting it can be systemically risky to the wider economy. The 10-person committee contains the most senior individuals in financial policy-making, including the SEC and CFTC chairs and the Treasury secretary.

Democrat Senator Elizabeth Warren has pledged to “fight them every step of the way” over dismantling Dodd-Frank raising the likelihood of a Senate filibuster over legislative repeals. Republicans have a 52 to 48 majority in the Senate as well as a vice-presidential tie-breaker whereas a 60-vote majority is required to overcome a filibuster under current rules.
The Trump tax plan would collapse the current seven income tax brackets into three. Married couple filer brackets would pay 12% on incomes up to $75,000, 25% on the income received between $75,000 and $225,000 and 33% on income over $225,000. The income brackets would be halved for single filers while the standard deduction will be increased from $6,300 to $15,000 for single filers and from $12,600 to $30,000 for married couples filing jointly.

The rate of individual income tax for someone earning $1m is $352,169.95. Under the Trump plan, a single-filer hedge fund manager earning $1m will pay $316,125 in individual income tax. That amounts to a more than 10% saving in personal taxes or $36,000.

The difference becomes more pronounced with incomes over $1m. Those earning $5m currently pay annual federal income tax of $1,936,169.95 but would be charged only $1,636,125, a 15% reduction from current levels.

The plans are similar to levels proposed by House Republicans and could form part of the 2018 budget, which is traditionally proposed in March by the president and passed later in the year. Experts say some form of the plans have a good chance of passing but could face opposition from Democrats and some fiscally conservative Republicans who may want spending cuts at the same time.

President-elect Trump has promised a moratorium on all federal agency regulations, which could include the CFTC and SEC although it is unclear what legal mechanism he could use to do so.

Lawyers says a Trump presidency means it will be very difficult to implement the CFTC plans for Reg AT before he takes office on 20 January. A new commission could significantly alter or scrap the rules.

SEC curbs on derivatives usage within mutual funds could also be under threat and proposed rule 18f-4 could be halted under a new commission. New commissioners could vote it down while Mary Jo White is stepping down as chair when President Obama leaves office.

Experts say the Department of Labor rule imposing a fiduciary duty on investment advisors dealing with consumers is very likely to be significantly altered.

Lawyers note the rule would have made it harder for retirement advisers to allocate to hedge funds or liquid alternatives due to the higher fees that would need to be justified.

It was strongly opposed by financial industry lobbyists and congressional Republicans. As a federal regulation, it is believed the rule could be moderated or scrapped fairly easily by the incoming Trump administration.

Some hedge funds targeting retirement income have already spent millions on restructuring their funds to make them compliant and more attractive based on the rule.

“The DOL rule is susceptible to not being implemented as it was all about Obama pushing it for his legacy” said one CCO.

US bank stocks rallied significantly the day after the election due to an expectation of a de-regulation drive. Goldman Sachs stocks had rallied by 11% at the end of Thursday while JP Morgan, Wells Fargo and other US investment houses made double-digit gains in 48 hours.
Multiple comprehensive services, using only state of the art technology for all funds. Challenge us to show you how we can help you!
Federal appointments
The SEC currently needs two new commissioners to be nominated, plus Kara Stein is stepping down next year and chair Mary Jo White is also leaving by January. That would leave four out of five commissioners to be appointed in the next couple of years.

Former SEC commissioner Paul Atkins, who was appointed under President George W Bush in 2002, is believed to be advising the Trump campaign and has been a fierce critic of current SEC policy.

“The climate at the SEC and who will be the next commissioners is important,” said the CCO at a $10bn hedge fund. “Does the climate become more business-friendly rather than a game of gotcha? The broken windows theory of stopping small infractions to prevent large ones could end. One would assume it becomes more business-friendly. Perhaps the rulemaking slows down or is more targeted.”

One name linked with the new SEC chairmanship to replace White is Commissioner Dan Gallagher, who was appointed in 2011.

“Gallagher would be great as chair,” said one former senior SEC staffer. “He is smart, sensible and commercial. I am not sure much will change in terms of exam enforcement which generally stays the same between presidential administrations.”

The CFTC also requires two commissioners to be appointed while chairman Tim Massad’s future is in doubt as he is a Democrat appointee.

In addition, IRS commissioner John Koskinen sees his term expire in 2018 and can be replaced.

In May, the influential Republican Study Committee, which has more than 150 House Republicans in support, called for “the complete elimination of the IRS.” Presidential candidate and Senator Ted Cruz also called for its abolition.

During the campaign, President-elect Trump signalled concern with the actions of the Federal Reserve branding it “very political” during the presidential debates.

Reports suggest he would like to see a change in direction at the Fed, including more hawkish policies such as increasing interest rates and cutting back on monetary easing, although he is unable to replace current chair Janet Yellen until 2018 unless she resigns.

However, there are two empty seats on the Fed board that he could fill next year with monetary hawks to begin to shift policy.

Corporate taxes
The Trump campaign’s latest tax plan had a headline figure of slashing corporate tax rates from 35% to 15%.

In earlier versions of the plan, Trump has suggested he would extend his corporate tax cuts to partnerships, which includes most hedge funds, although industry experts are waiting more clarity in this area.

Extending the tax cut to partnerships would allow partners to extract money from the structure at unlimited levels for just 15% rather than higher band income tax levels.

Trump has said carried interest would be taxed as ordinary income, rather than capital gains, although provided no details about how he would apply the move.

A focus of US politicians’ fire on both sides of the fence has been those earning carried interest and paying long-term capital gains tax on gains, which is normally 20% and paid on investments held for longer than a year, rather than income tax.

The so-called “loophole,” is mainly to the benefit of private equity but some hedge funds with longer investments, often in the illiquid credit space, can also claim.

Some estimate this to be around 30% of hedge funds while others believe the true figure using the structure is much higher.

President Obama’s plans for an overhaul of carried interest included a proposed enterprise value tax (EVT), which meant asset managers selling their business would pay full income tax instead of capital gains, a move lawyers and hedge fund lobbyists warned would be grossly unfair as other industries do not face the same tax hit when selling their businesses.

Republican resistance has come from technical problems around the rules being drafted too widely, for instance by including the EVT measure, and the desire for more wholesale tax reform.

“Now we have Republican control of the Congress and presidency then it should be able to pass legislation,” says Jay Freedman, tax partner at KPMG.

“Carried interest is on the chopping block but whether it applies only to hedge funds or private equity is unknown. The big question is if he does something in isolation or as part of a larger tax reform.

“This could be individual, international, pass-throughs and corporate. Do the Republicans try to handle them all once or take them in bite-sized pieces? The question is how they attack it.”

Trump’s plans in numbers

3
Hedge fund managers and relations in the presidential transition team including SkyBridge Capital founder Anthony Scaramucci, Dune Capital Management founder Steven Mnuchin and Rebekah Mercer, daughter of Renaissance Technologies co-CEO Robert Mercer

512
Number of pages of the Republican Financial Choice Act, a potential alternative to Dodd-Frank, proposed earlier this year

15%
The rate of corporate tax pledged by President-elect Trump, down from current levels of 35%

$36,000
The savings from federal income taxes for some earning $1m a year in the Trump campaign’s tax reform plans

10%
One-off tax on all foreign earnings not yet taxed by the US which could then be repatriated without additional taxes

4
Number of empty SEC commissioner seats the new president will need to appoint in 2017 with Mary Jo White stepping down at the end of President Obama’s tenure and Kara Stein stepping down next year

16%
The percentage increase in Goldman Sachs’ share price after a five-day rally in US bank stocks in anticipation of looser regulations following the election

1,447
The number of days until the 2020 US presidential and congressional elections
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The biggest hedge fund centres in the US are making significant moves to restrict the use of non-compete agreements that could reshape employment practices across the sector. Preqin data shows the top five fund centres in the US by assets are New York, Connecticut, California, Massachusetts and Illinois. All are considering more liberal labour laws except California which is already known for very rarely enforcing non-compete agreements.

In a statement on 25 October, the White House said non-compete clauses should only be used in very limited situations where trade secrets are at risk. Even then, the White House said non-solicitation and non-disclosure agreements were mostly sufficient.

Many hedge funds use non-compete agreements to retain senior traders and employees and make it more difficult for rivals to poach them. In 2012, Rokos Capital founder Chris Rokos sued his former employer Brevan Howard to terminate a non-compete agreement he signed with the firm.

Most state reform proposals have come from Democrat-led state legislatures, but last week’s election saw Republicans cement their hold on more than 30 state-level governments. “It is hard to say how much effect on state legislatures the White House’s call for action will have,” said one employment lawyer who focuses on hedge funds.

“And now, after the election, it’s become clear that Republican control of many state legislatures will remain the norm.”

“But if some or all of the White House’s proposals are enacted in states where hedge funds are located (or maybe also where their employees live) it would impact current practices.”

In any case, the key states for the hedge funds sector are dominated by Democrat politicians largely unaffected by last week’s election, and so are likely to press for an easing of the clauses.

**State Actions**

Preqin data shows there are 1,177 hedge funds based in New York managing $1.1trn, making it the largest base for managers in the world.

New York Attorney General Eric Schneiderman propose a 2017 bill which would ban all non-competes except for trade secrets and confidential information, require non-competes to be provided before a job offer, force employers to pay their employees extra if they sign non-competes, limit the length of agreements and allow employees to sue for damages or violations. His move follows bills in the state assembly and the state senate proposing similar curbs on non-competes and also non-solicitation agreements.

Lawyers say the move also follows a clear trend in New York courts where judges have been reluctant to uphold non-competes. Marshall Babson, employment counsel with law firm Seyfarth Shaw, says more hedge funds are now using paid leave rather than tough non-competes to prevent staff departures.

“New York is becoming much more liberal with these agreements and what used to pass muster is increasingly subject to scrutiny,” he said.

Preqin data shows Connecticut is the second largest state behind New York, with 203 hedge funds managing $334bn, although almost $200bn in assets in managed by just two firms, Bridgewater and AQR. Employment law firm Rome McGuigan says Connecticut state courts are generally willing to accept a one-year time restriction. “The longer the time restriction the less likely the restriction will be found reasonable,” the firm said in a legal note. “In Connecticut, the geographic scope of a non-compete agreement is even more salient because of Connecticut’s small geographic size and is the basis on which most non-competes are found unreasonable.”

Last month, the National Labor Relations Board, a federal agency which enforces labour laws, said it was suing New Haven-based Bridgewater Associates over its employment practices including its use of non-compete agreements. On 1 July, Connecticut governor Daniel Malloy signed legislation restricting use of non-competes for doctors. The aim was to ensure patients were not denied medical treatment by restrictive employer agreements. A similar law relating to medical professionals was passed in Rhode Island on 12 July.

Preqin data shows Massachusetts is the US’s fourth-largest hedge fund state with 169 funds managing $213bn in assets. The state tried to pass rules restricting non-compete reforms in August but failed to reach a compromise between senate and general assembly bills before the end of the 2015/16 session. Massachusetts has a strict interpretation of non-competes, meaning they can be enforced even if an employee is made redundant or sacked. The legislature is expected to propose new legislation when it meets next year.

Illinois is the fifth-largest state for hedge funds in the US with most managers based in Chicago. Preqin shows the state has 175 hedge funds managing $107bn. On 19 August, Illinois Governor Bruce Rauner officially signed the Illinois Freedom to Work Act, restricting non-compete agreements from 1 January 2017.

The act restricts use of non-competes for contract workers and is mainly focused on low-wage employees but lawyers say it could affect anyone who uses agreements and all employers should review their procedures.
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WHAT TRUMP MEANS FOR FUND MANAGERS

Lizzie Heil, director of business development at Arkk Solutions, considers how the 2016 election result will impact US fund managers complying with Form PF.

While the president-elect has made no official policy pledges around financial regulation, Donald Trump has said that Dodd-Frank should be "eliminated or changed greatly". House Republicans stated in June that they will not support further expansion of the SEC’s reach, and the post-GFC atmosphere which supported a sweeping Democratic victory in 2008 has clearly shifted.

For fund managers whose sights are on registration and year-end, the possibility of further changes to Form PF is worrisome. Even if Dodd-Frank is outright repealed, the strict regulation of the fund industry will continue for the foreseeable future. To prepare, managers need to find the best solution to make reporting as simple as possible.

SHIFTS AND CHANGES

The scope of the Form PF requirements was a shock to the funds industry in 2010. This disruption was even greater for those in the private equity space who are less accustomed to scrutiny and regulation than hedge funds. The consequences of failing to comply include a large fine or even the threat of an SEC audit. This meant that filers had to take Form PF seriously right from the implementation phase. Managers know that the regulations are here to stay, but most agree there is still work to be done to make Form PF filing as painless as possible, especially for quarterly filers.

The hardest part of Form PF filing isn’t keying in the information. Although this can be timely if you don’t have a roll-over system in place, the greatest challenge is actually interpreting and understanding how the SEC wants you to answer the question. If you don’t have a solution in place which automatically updates Excel templates with all changes made by the regulators, you will need the resources in-house to learn the latest requirements. Between potential upcoming revisions to Dodd-Frank, and additional reporting requirements such as AIFMD, CPO and Fatca, keeping up with the regulations is a full-time job. Fund managers can save time and cut costs by leaving regulatory experts to do this, rather than allocating this resource internally.

Changes to regulations are not only time consuming; increasingly Form PF is becoming a business cost. Without automatically incorporating directive changes into the templates, fund managers will need the resources to revise the requirements and adjust the form every filing period. This cost rises if the SEC decide to conduct an audit, which is an even more expensive disruption than settling a large penalty fine. It is critical to understand the needs of your funds from a regulatory point of view and to be ready to adapt to change. Only after putting the correct procedures in place to file with both the SEC and foreign regulators can managers expect to see less of a burden.

NEW PATHWAYS

When the regulations receive an overhaul, managers will need to find new ways to source data from different areas of their funds. This year has seen further focus on fund level expenses and fees, which means managers face a costly challenge to track down the necessary information. As filers reporting under the recent changes to Form AVD will know, when requirements update it is not always as simple as it sounds to source the new data. Having a system in place which alerts managers of any new fields ensures that you know when the SEC’s expectations change, and where to focus your efforts to ensure compliance.

Time will tell how much the Republican Congress will revise the Dodd-Frank Act under Trump’s influence. It’s not clear how high of a priority this will be for the 45th President, and his focus on the act’s impact so far has been on banks rather than funds. Form PF’s scope is unlikely to increase under Republican leadership, and the SEC only has the capacity to analyse so much information. Hopefully, we will see further clarity around the requirements in 2017, making it easier for filers to understand what is expected of them. Fund managers know that Form PF is here to stay. Finding a solution which automatically updates with the SEC’s new requirements and allows filers to roll-forward last quarter’s data will set them up for whatever revisions the Dodd-Frank receives under the new presidency.
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