



COMMENT&ANALYSIS

THE LONG VIEW

MARK MANNION

assesses the drivers of hedge fund performance so far in 2011 and looks at the impact of Ucits growth on the industry



“WHILE MANY OF OUR CLIENTS VIEW UCITS AS AN OPPORTUNITY TO EXPAND THEIR DISTRIBUTION POTENTIAL, THE MAIN DRIVER HAS BEEN THE NEED TO ADDRESS KEY INVESTOR CONCERNS FOLLOWING THE TURBULENCE OF RECENT TIMES”

Almost six months into 2011 and there now exists sufficient empirical evidence to suggest that the hedge fund industry’s recovery is gathering momentum. Hedge fund inflows have increased, redemption requests are at a record low and many hedge funds are now reporting several consecutive months of positive returns. The report that European funds of hedge funds (FoHF) experienced significant inflows back in March is most welcome, as is anecdotal evidence that UK pension funds are about to increase allocations to the alternative asset class. I am pleased to report that most of our hedge funds are in positive territory year to date, with commodities, event driven and macro strategies to the fore.

BNY Mellon has experienced considerable activity in the alternative Ucits sphere in 2011 and expects this dynamic to continue. While many of our clients view establishing Ucits as an opportunity to expand

their distribution potential, the main driver has been the need to address key investor concerns following the turbulence of recent times. On the assumption that a particular hedge fund strategy can be appropriately accommodated in a Ucits, this structure can deliver the degree of liquidity, transparency and risk monitoring that investors appear to be seeking.

If Ucits funds continue to represent a real opportunity, compliance issues continue to worry managers. A troika of regulatory developments continues to exercise our clients, with the precise impact of each still some way from final determination. Fatca will require the provision of US investor names to the IRS or expose those investors to a 30% withholding tax. This has significant implications for the transfer agency function. AIFMD continues to evolve and the roles of independent valuation agent and depositary are the main focus of attention from the service provider’s perspective.

Finally, Solvency II will introduce capital implications for certain investor types should they wish to invest or continue to invest in hedge funds.

It does not appear that capital raising has become any easier for new managers in 2011. We are active participants in the extensive due diligence carried out by potential investors. This process can involve an extensive review of internal controls and procedures, system reviews and reporting analysis.

In terms of product innovation, there are those evolving from Ucits growth. With the number of alternative Ucits having reached a critical level, there is now a sufficient universe to permit the creation of funds of absolute return funds. Hedge fund replicants are coming to market, usually offering more frequent liquidity and a lower fee structure than a typical single manager fund. It is probably too early to comment on how popular this product will turn out to be.

The debate around onshore versus offshore domiciles continues to rage. Both Ireland and Luxembourg have introduced specific legislation to facilitate redomiciliation from offshore locations. The arguments in favour of onshore tend to focus on the opportunities to expand distribution potential and the onshore regulatory environment which promotes transparency and accountability. Another school of thought would suggest that, unless there is a clearly defined investor demand, a manager can offer strong internal corporate governance and the required level of transparency from an offshore domicile without incurring the costs associated with the regulated onshore products. It is too early in this debate to make a call on how the market share of onshore versus offshore will shift in the medium term. ■

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THE WEEK IN QUOTES

“VERY LITTLE M&A HAS TAKEN PLACE BUT A LOT MORE ADMINISTRATORS ARE FOR SALE, ALL SMALL ONES”

HANS HUFSCHMID, CEO OF GLOBEOP EXPLAINS THE NATURE OF RECENT MERGERS AND ACQUISITIONS ACTIVITY IN THE HEDGE FUND ADMINISTRATION SPACE

“HUMANS ARE NOT THAT GOOD AT PREDICTING THE FUTURE”

HEDGE FUND MANAGER ARAM FUCHS, FOUNDER OF NEW YORK FUND FERTILEMIND CAPITAL, ON WHAT WE’VE LEARNED FROM THE FINANCIAL CRISIS

“THREE YEARS AGO, I SAID NO. FIVE YEARS AGO, I SAID NO. TEN YEARS AGO, I SAID NO. THE SITUATION HAS CHANGED DRAMATICALLY”

MICKY MILLER, JACKSONVILLE POLICE AND FIRE PENSION FUND’S FINANCE DIRECTOR, PROVES IT’S NEVER TOO LATE TO ALLOCATE TO HEDGE FUNDS