Interview: Luke Ellis – CEO, Man Group

Stockholm (HedgeNordic) – Luke Ellis is the CEO of the world's largest publicly traded hedge fund manager, Man Group Plc. While in Stockholm earlier this year, HedgeNordic met up with Ellis to hear what he had to say about the current environment for hedge funds, what strategies that he sees as most likely to perform well in the current market environment and how he views the recent difficult market conditions for CTAs. He also gave his input on hedge fund investor activity and the pressure on hedge fund fees.

Hedge fund performance, it has picked up, is increased cross market correlations divergence the explanation?

– *Yes, the more dispersion there is across stocks and between different market/assets, the more opportunity there is to generate alpha (both positive and negative), and so the skill inherent in good hedge fund managers has been rewarded with better performance.*

What strategies are best suited for the current environment of extreme (low) volatility levels and zero or negative interest rates?

– Overall, markets (especially equity markets), have been in a period of extremely low volatility, this has been caused by the very strong dispersion of individual stocks and sector rotations. This creates potential opportunities for stock picking strategies, such as Equity Long Short and Statistical Arbitrage. The low interest rate environment and central bank intervention has been beneficial for almost all Credit strategies.

Where should hedge fund investors turn in an environment of increased rates and volatility?

– *A significant change in the environment, such as a sustained increase in interest rates, would likely create a lot of opportunity for CTAs, particularly as their models are designed to respond to changes in environment, they are typically quite happy to stay short however far rates move and their risk management adjusts to different levels of market volatility automatically.*

CTAs are still struggling, what prospects do you see for the strategy going forward?

– *I don't really agree that CTAs are struggling – while one or two may have suffered significant losses others have made double digit gains in the first half of the year. CTAs tend to favour a significant change in environment rather than a market bouncing within a range (such as oil has been doing between USD 45-60). If we are seeing a material change in approach from Central Banks, restricting the easy money regime of the last 8 years, that should create a good opportunity set for CTAs.*

Asset flows, what are you experiencing with regards to investor interest in hedge funds, on its way back?

– Last year saw net outflows in the industry, however, these were small and not enough to offset the growth in AuM. So far this year looks to have been similar across the industry, but it does seem like the tone is improving due to the better performance, and if performance continues to be reasonable we would expect positive industry flows to resume.

Regarding hedge funds fees, are fee pressures intensifying or stabilising at lower levels?

– *It’s very important that fees reflect the risk taken and value added by a manager. After the financial crisis average hedge fund volatility was significantly lower than before the crisis with funds typically running at 5% vol rather than 10% before the crisis. It has taken time for the fees to adjust to the new reality and in some cases there isn’t still further to go.*

Why is Man Group focusing on active management, rather than solely hedge funds?

– We look to use our skills in fund management to help our clients. Our skill comes from creativity and hard work, applied by very talented people working in collaborative teams. Some clients are happy to use the skill through investing in hedge fund products. But some clients prefer to invest in long only products, either overall or in specific asset classes. Our goal is to help those clients in any way we can and so we are happy to deliver our skills in whatever way is best for the clients.