DECEMBER 2019

HEDGENORDIC

PROMOTION. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION

- Digital Marketing Trends
- The Amazon of Asset Managment
- Is Your Fund Raising Sustainable?

MARKETING & SALES FOR HEDGE FUNDS

SPECIAL REPORT 2019
MARKETING & SALES FOR HEDGE FUNDS

Contents

PROMOTION. FOR INVESTMENT PROFESSIONALS ONLY. NOT FOR PUBLIC DISTRIBUTION

HEDGENORDIC

INTRODUCTION

HedgeNordic is the leading media covering the Nordic alternative investment and hedge fund universe. The website brings daily news, research, analysis and background that is relevant to Nordic hedge fund professionals from the sell and buy side from all tiers.

HedgeNordic publishes monthly, quarterly and annual reports on recent developments in her core market as well as special, indepth reports on "hot topics".

HedgeNordic also calculates and publishes the Nordic Hedge Index (NHX) and is host to the Nordic Hedge Award and organizes round tables and seminars.

PUBLICATION PLAN 2020:

January:	2020 Vision
March:	Nordic HF Industry Report
June:	Real Assets
September:	Diversifying Portolios
October:	Systematic Strategies
November:	Alternative Fixed Income

CONTACT:

Kamran George Ghalitschi
Nordic Business Media AB
Kungsgatan 8
SE-103 89 Stockholm, Sweden
Corporate Number: 556838-6170
VAT Number: SE-556838617001

Direct: +46 (0) 8 5333 8688
Mobile: +46 (0) 706566688
Email: kamran@hedgenordic.com
www.hedgenordic.com

Picture Index: isak55---shutterstock.com, The Hornbills Studio---shutterstock.com, Minerva Studio---shutterstock.com, NaughtyNut---shutterstock.com, Dimj---shutterstock.com, urfin---shutterstock.com, ©-flyfisher---Fotolia.com, Michal Damkier---shutterstock.com, Phonlamai Photo---shutterstock.com, Tashatuvango---shutterstock.com

Editor´s Note...

Quick & Dirty over Fit & Proper

> “Meeting with investors is so much more than a desperate hunt for that big ticket. It is also a sanity check.”

Marketing, sales, investor relations and similar trades are essential for an asset manager. These functions require attention and consideration when setting up, and through the whole life cycle. It is not too often that a really good team of portfolio managers and a solid team that has an eye on the marketing side come together. But when they do, magic tends to happen.

Often two or three guys (more seldom it seems, ladies) cross paths during their careers as asset managers, portfolio managers, analysts and or similar and smolder on starting their own fund. The ultimate prize: become geek rock stars like James Simons, Ray Dalio, Ken Griffin, Warren Buffet or their likes, make financial markets more efficient and become filthy rich on their way. They´d get together, argue, discuss and rethink investment strategy over and over, be meticulous on things like their risk management or how to perfectionize execution. They´d set up some easy and cheap fund structure that allows them to do what they want to do, maybe hire a CEO to deal with lawyers and regulators. Possibly they´d go knocking on doors with friends & family to find some petty cash to help seed the fund and off they go! What could possibly go wrong? More often than not, there simply is no plan, no strategy and no focus in place when it comes to raising assets for the fund. The simplest things (does my fund structure actually suit my likely investor profile, is it accessible for investors…) are left to random chance. So much around marketing and sales takes the quick & dirty, rather the fit & proper approach.

Some of the most stunning sentences I hear are “We are not talking to investors yet”, or “we are not doing any (!) marketing”. The logic being, the manager is focusing on other (very important!) stuff such as having paperwork in order, building a track record, opitimizing trading, administrative setup and all the other things that do not involve picking up a phone and talking to potential investors. “We have a great track-record, the investors will find us!”

To me, there is almost a certain arrogance to that. If you are a great painter and want to make a living of it, you don´t hang your art in the barn on the family farm, expecting all the art critics and collectors to miraculously turn up to find it there. You go out and promote it, or find someone who does it for you.

Meeting with investors is so much more than a desperate hunt for that big ticket. In its simplest form, it is also a sanity check if what you cooked up in the privacy of your kitchen actually has any justification to make it into the dining room. Potential investors from various tiers can provide invaluable feedback on a funds set up and strategy. After all, they meet with managers, review funds and perform due diligence on them day in, day out. Ask for their input, and accept their help.

Like in so many other fields, technology too can play a vital role in your marketing and communication efforts. There are solutions aiding in lead generation, public relations, marketing, CRM tools and more. It is an endless field of opportunities where at times some trial and error, a little budget but most of all some attention can really carry you a long way. The approach from past decades where you lean back and make sure the fax machine has plenty of paper to spit out those subscription forms pouring in is simply not good enough.

There are conferences to attend, where old school tactics like shaking hands and exchanging business cards can take you a long way. There are media to contact, and regularly interact with (such as HedgeNordic), there are databases you can list your funds, investors to call, platforms to tie on to…

The cliché ridden quote from Benjamin Franklin is as true for fundmarketing as for so many aspects of business, and indeed, life: If you fail to plan, you are planning to fail.”

KAMRAN GHALITSCHI
CEO & PUBLISHER HEDGENORDIC

www.hedgenordic.com - December 2019
HEDGENORDIC

Jack Inglis, CEO
The Alternative Investment Management Association (AIMA)

Asset Retention

By Jack Inglis – AIMA

"The investor relations function can comprise multiple elements including sales, marketing, product specialism and client service, but much attention is reasonably focused towards "asset raising" especially when a fund is starting up."

At the recent UK launch of AIMA's publication In Harmony: how hedge funds and investors continue to strike the right note in aligning their interests, Jennifer Mernagh, Investment Strategist at Aberdeen Standard Investments, commented that having investor relations professionals who can deliver clear information and messages to investors about their company products are "worth their weight in gold". The Barclays paper AUM Doesn't Grow on Trees said, "The efficacy of the Marketing / IR team is critical for a hedge fund to grow and thrive, especially under the current market conditions." Further, in AIMA's Making it Big research paper, which examined what it takes for a manager to break into the billion-dollar club, it was noted that funds managing between US$100-500m and those managing over US$1bn all hire an in-house marketing specialist.

The investor relations function can comprise multiple elements including sales, marketing, product specialism and client service, but much attention is reasonably focused towards "asset raising" especially when a fund is starting up. Even post-launch, or when a fund is hard closed, the development of a pipeline of new investors that can be called upon is essential. This is relevant if existing investors need to exit a fund or strategy due to a decision to change course in their allocation policies, or the need to meet their own redemption requirements. A sales mentality or, put more elegantly, the desire to keep abreast of the ideas, opportunities and diversification that new investors can bring to a manager, will always play an important role in any business.

Today the "asset retention" component of the IR role is being afforded a loftier position than, for example, fifteen years ago, when raising assets for hedge funds was easier and the typical hedge fund investor had fewer institutional requirements and so needed less minding from their hedge fund managers. The Barclays paper observed the cost of raising capital from new investors is significantly higher than from existing investors. The findings also showed that compared to 2012, the cost of raising capital from new investors rose, while it remained relatively flat or event slightly declined for existing investors. It therefore pays to give as much attention to asset-minding as to asset-finding.

The process of asset retention begins as soon as the subscription monies reach the fund's bank account. Communication is central to having a stable relationship with an investor so during the lifetime of their investment they are always clear and comfortable with how their money is being handled. Mechanisms are put in place to ensure the items which need to be communicated are delivered in an accurate, consistent and timely manner, be it performance, transparency reports, investor letters or disclosure of significant and material events, such as a change in key man or replacement of a service provider. Depending on the type and size of the investor, the style of communication will differ. Some investors want to pick up the phone and speak directly with their contact at a fund whilst others prefer a lighter touch. The role of the IR person/team is to establish early on, the best way to tackle this. A "one size fits all" approach rarely works.

During times of good performance, the role of the IR person should be relatively straightforward, and this can present the opportunity for them to get to know their clients in a non-stressful environment. AIMA's In Harmony research showed that, increasingly, investors want customised solutions from their managers and to be engaged in true partnerships. This could mean an exchange of knowledge and education from both sides, and the chance for the manager to deliver more solutions, products and services to their investors, leading to a strengthening of the relationship and provision of further monetary benefits to both sides. Engaging at this level builds trust and lays the groundwork for when, or if, more trying times lay ahead.

"The process of asset retention begins as soon as the subscription monies reach the fund's bank account. "

A crisis event for a manager can manifest itself in anything from a significant drawdown or an unexpected or unusual market event, to an incident requiring invocation of a business continuity plan. The lack of timely and considered communication in these circumstances can lead to a loss of trust which can trigger the withdrawal of investor capital.

AIMA's Guide to Sound Practice for Investor Relations mentions that it is "vital to be pro-active, rather than reactive, in communicating a difficult situation to investors, and this is likely to extend to key prospects as well." Having a process in place to manage messaging and communications, led by an investor relations team that understands their client base, is key in protecting the business. Arguably, successfully retaining assets during hard times is as important a skill for an IR team, as the ability to onboard them.

With this in mind, it is interesting to see how IR people are rewarded for their efforts. Remunerating IR individuals comes with its challenges and AIMA's Guide to Sound Practices for Investor Relations noted that, "While formula-driven compensation models were more common in the past, few investment managers now use a commission-based approach in compensating their IR teams. Most have migrated to discretionary bonus systems." The AUM Doesn't Grow on Trees research revealed that two models of hedge fund compensation exist, purely discretionary and discretionary with a formulaic component. The move from the days of formula-driven-only compensation models is likely a function of the IR roles evolving to include a minding component and generally being more complex than pure sales. This hopefully indicates that the industry does view those caretakers of capital, or minders, as important as the finders.

Investor relations is essential to the growth and stability of a hedge fund business. At AIMA, we recognise this and some of the topics touched on here were central to discussions at our annual "Spotlight" event held on 29th October.

We also run Business Development and Investor Relations Groups in all regions, comprising individuals who represent the IR function at manager firms, whether as minders, finders or both. It is evident from our informative gatherings that the industry understands the importance of these roles and are employing sophisticated, technical and knowledgeable professionals to guard their assets. We learn much from them and look forward to continuing to provide support through our work.

"Having a process in place to manage messaging and communications, led by an investor relations team that understands their client base, is key in protecting the business."

Cassie Waller, Senior Director - The Asset Management Exchange

Oliver Jaegemann, CEO - The Asset Management Exchange

HEDGENORDIC

By Pirkko Juntunen – HegdeNordic

The Ambition is to Become the Amazon of Asset Management

In the same way that Amazon has revolutionised online shopping, the Asset Management Exchange (AMX) is transforming the way institutional investors and asset managers do business.

The goal of AMX, the brainchild of Oliver Jaegemann, Chief Executive, is to reduce the inefficiencies and fragmentation embedded in the investment process, making it easier for managers and institutional investors to interact, by standardising, centralising and streamlining the process of investing. "Our institutional platform takes care of the operational and legal complexities so that investors and managers can focus on what really matters: generating returns."

Platforms for retail customers have been around for some time but that type of setup does not satisfy the governance requirements for institutional investors, Jaegemann explained, adding that technology is fast changing the opportunities for institutional platforms such as AMX.

AMX is owned by Willis Towers Watson, the global consultancy, but operates independently so that it can be truly open-architecture and available to every player in the investment industry.

Jaegemann wants to make clear that AMX is not a fund of funds or in any way tied to its parent's recommendations. "We are entirely driven by investor demand. We do not pick managers or make any investment decisions or set strategies," he emphasised. AMX is also open to all intermediaries across the industry to help implement investment recommendations and decisions.

AMX's more than 80-strong team negotiates with managers, transitions assets, provides reporting and adds another layer of oversight, thereby improving governance. Over 50 investors have joined the platform bringing over US$9 billion in assets across 24 funds.

The benefits of the platform to asset managers, such as hedge funds, is fairly obvious – global distribution capabilities and the facilitation and launch of tax efficient fund structures, leveraging scale to drive down costs for the investor and and increasing operational efficiencies for the manager.

In addition, AMX provides the fund structure, management company and takes care of the operational setup and implementation for all asset managers on the platform.

Platforms for retail customers have been around for some time but that type of setup does not satisfy the governance requirements for institutional investors ...

For existing managers, AMX provides an additional distribution channel, a European fund structure and access to potential new investors.

Asset managers can work with AMX to set up and launch their fund structures; using AMX as an extension of their distribution and product teams. For emerging managers, this approach could mean that niche strategies, that once might have been too difficult to launch, can now be launched on the platform. For existing managers, such as Lansdowne Partners, Magnetar Capital and Systematica, AMX provides an additional distribution channel, a European fund structure and access to potential new investors.

Cassie Waller, Senior Director, said AMX smooths the onboarding of new clients' assets through its streamlined processes and dedicated teams. "This leaves the fund managers time to focus on their best skills, generating performance, rather than on admin and hiring expensive internal teams." she added.

AMX prides itself on its independent oversight capabilities which improves governance and reduces risk, providing better outcomes for both managers and investors.

The only reason to remove a manager would be if there were operational issues or legal red-flags, but it's never happened to date. "It is pure economics. In a scenario where there have been significant redemptions and maybe only one investor left in a fund we would flag that and give the investor the metrics of the situation and that it might no longer be cost-effective to remain," Jaegemann explained.

He also said that AMX is agnostic as to what type of funds are on the platform as it is driven by client demand. "When it comes to ESG, we are mindful of AMX's own impact, but we do not select funds based on these criteria as it is based solely on client demand. As ESG and impact investing grows in importance we expect to see more of these funds on the platform. In addition, should pension funds require measurement on ESG data such as the size of carbon footprints, AMX would be happy to negotiate with data providers to get this service on behalf of the clients on the platform.

AMX has already attracted several hedge funds for the above-mentioned reasons. Institutional investors have been increasing their allocation to alternatives, including hedge funds, but many baulk at the costs and smaller pension funds may not be able to invest in segregated accounts because of their size. This in general would see their assets allocated to a pooled fund. Again, many may want to avoid this setup because it does not offer the pension fund enough visibility of either the investments or the associated services such as prime brokerage, custody, legal and audit.

For institutional investors, large and small, AMX offers the benefit of additional oversight and simpler implementation as well as lower costs.

The cost savings alone on AMX, through greater purchasing power as AMX negotiates fees with managers and other service providers, has attracted attention. "We continuously monitor costs make sure that investors are only charged for allowable expenses." Jaegemann said.

The transparency of the platform offers true visibility into the costs paid by an investor to a manager, including trading costs. Costs such as travel, marketing, manager expenses and non-strategy specific costs are not allowed.

The risks and exposures of each fund is monitored daily by a specialist risk team at AMX and investors also gain access to performance reporting though the AMX portal. Through the portal investors can implement their entire portfolio, thereby cutting down duplicate costs.This also reduces time spent on administration and due diligence as fund structures and contracts are standardised. The platform also enables quicker implementation of investment strategies with a streamlined process through a dedicated onboarding team.

Standardisation and simplification of processes increases the ease of monitoring and allows investors to focus on strategy selection.

Jaegemann does not see any capacity issues for the foreseeable future but welcomes competition as he believes investors are better served with healthy competition in the market.

Institutional investors are not necessarily known for being quick to adapt to change but Jaegemann and Waller say there are areas where resistance to change is not so ingrained. One of them is the Nordic region, and Sweden in particular, where AMX sees potential growth for the future. "We notice that the mentality there is different compared to many other places. They understand change is needed and are open to conversations," Waller said.

Tightening EU-wide and domestic regulation and pension reform has brought attention to the Swedish national defined contribution platform, managed by the Swedish Pensions Agency. The cull of funds there, and among fund platforms offered by insurers and other pension providers, has also forced the industry to focus on governance and costs, making AMX an attractive proposition for the Swedish market.

Among other countries and regions AMX is focusing on is the US, for sheer size, and South Africa because of the regulatory regime changes, the increased demand for transparency and governance and a desire to provide the end investor with the best solution in the most cost-efficient way. Both South Africa and the Nordics, are examples of where change in the investment industry is happening now. AMX can help address these changes by providing the infrastructure to make these pension reforms a reality.

There will always be those resistant to change but AMX's ambitions are likely to continue to attract investor and manager interest as long as the hunt for returns in a cost-efficient way is the name of the game.

theAMX.com

Digital Marketing Trends That Will Help You To Raise Assets

Paul Das
Founder and Managing Director
ProFundCom

By Paul Das – ProFundCom

Fund marketing is changing. Thanks to technology, the way successful asset managers interact with clients and prospects has altered dramatically. Also, due to the vast amount of information and digital channels out there - what investors want has also changed.

The old days of relationship managers driving investment are disappearing. A new breed of investors – some of whom can't even remember a time before the internet - are taking over. And these people look to digital sources for advice and to help them make their own decisions, so are much less likely to rely on what a relationship manager may tell them.

So, in this hyper-connected age, it is those companies that successfully harness digital marketing innovation that will stand out and thrive.

And in this article we take a look at new digital marketing trends that you must get to grips with to master this brave new digital world and grow and retain AuM.

INTEGRATED MARKETING

What does integrated marketing mean? Once, it simply meant ensuring all your print marketing efforts were integrated.

But times change, and integrated marketing today is all about the web experience – and making sure that your website and digital offering provides a truly integrated experience to your clients and prospects.

And this means a modern website that really helps your prospects and clients with what they want to do, as opposed to an 'old-style' website that is full of self-promotional waffle. New, digitally-savvy investors don't want a static website that simply tells them a bit about a company and brand – they want an interactive and useful experience.

So, you need a website that is easy to navigate, with an excellent interface that makes accessing information

ProFundCom is the leading digital marketing platform in finance, built to exacting compliance and security standards.

With over 15 years in the industry. ProFundCom delivers unrivalled digital marketing and reporting analytics to enable companies to raise and preserve AuM.

www.hedgenordic.com - December 2019
HEDGENORDIC

about, for example, a certain fund quick and easy. And you must have an advanced and simple search capability so investors and prospects can quickly get to where they want to be and find the details they require.

This it is what web-users want and need, and are used to in other areas of their lives – so investment should be no different. Intuitive, easily navigated sites like Amazon and John Lewis, which are very good at helping people find what they want quickly and easily, are leading the way in this regard. And people are looking for the same thing from their asset management company.

BRING IN THOUGHT LEADERSHIP

Another trend under the integrated marketing banner is to publish thought leadership articles on a dedicated section of a website, which expand on current topics about funds and investment strategies. These work best when they provide clear help and advice - rather than being promotional - and are written in the voice of the author, rather than in the third person.

Thought leadership articles work for two reasons – one is SEO (search engine optimization), as it helps with Google ranking, but the other is that this sort of incisive, helpful and articulate comment is very good at building trust. It's simple human nature that, when you see someone as an authority on a subject, then you are much more likely to trust that person as a provider of the service in question. And this is especially true when it comes to money, where trust is absolutely vital.

DON'T FORGET ABOUT EVENTS

It is important to remember that all your online work has one ultimate purpose – to raise and preserve AuM. And, when it comes to AuM, decisions are made offline.

That's why it can be so important to include events, where you can actually meet prospective investors face to face, as part of your integrated marketing strategy. These are not only great for brand awareness, but also drive ROI and make the most of all your digital marketing efforts. That's because an event allows you to meet the people that you have been connected with digitally and make the final breakthrough in persuading them to invest with you.

GET SOCIAL

There is no escaping the importance of social media in your marketing efforts. Whether you're using LinkedIn, Twitter or Facebook – or all three – it can really help you, as your potential client base is there as well.

However, social media content is all too often bland and unengaging and so does little to help with raising AuM. For it to work, you need to inject a bit of personality. One way to do this is to introduce video into your social media marketing, as faces and voices really cut through the blandness of social media content and connect directly with your prospects.

BRING IT ALL TOGETHER

The Holy Grail of integrated marketing is to be able to view all your performance statistics – social, web, email etc – in one single place.

This is vital because, if you have this information spread across several different platforms, then it's impossible to demonstrate ROI – and your marketing team will fail to get the recognition it deserves.

By contrast, single platform reporting allows you to drill down into valuable stats on the people within your database – such as who your new prospects are, who is most actively engaged with your material, and (most importantly) which investment opportunities have arisen as a direct result of your marketing activity. This is the type of information that justifies the position of a marketing team and the level of investment it receives.

AI AND MACHINE LEARNING

It is easy to get jumpy when AI and machine learning are mentioned. But, don't forget, these are just tools to help you with AuM – they are not going to replace people any time soon

At its most basic level, this new technology allows you to target prospects, and existing investors, within your database who may be ready for a call from your sales department. This could be because digital activity shows they are ready to invest, or they may have been flagged up as they are an existing investor whose behaviour suggests they are about to redeem.

"It is important to remember that all your online work has one ultimate purpose – to raise and preserve AuM. And, when it comes to AuM, decisions are made offline."

So, in this instance AI is there to increase the efficiency of your sales team through the power of rapid digital analysis. It can automatically scour your database to reveal vital information such as:

• Prospects who have just started reading and interacting with your material

• The most active prospects within your database –who are reading and engaging more than any others

• Existing investors who have stopped reading and interacting (and thus may be looking to redeem)

• Existing investors who have suddenly started reading and engaging again (and thus may be ready to increase their investment)

TEACH YOUR AI ENGINE ABOUT PERSONAS

Client personas are a fantastic marketing tool – as they allow you to identify potential investors from certain characteristics.

And you can sit down and identify the typical persona of an investor in your fund and teach your AI engine to spot these people as soon as they enter your system – so marketing and sales teams will be made aware of their presence and can interact with these valuable prospects as appropriate.

IDENTIFY CROSS-SELLING OPPORTUNITIES

Perhaps the most powerful - and profitable - ability of your AI engine is to spot cross-selling opportunities. That's because it is far cheaper and easier to sell to people who are already investing with you, than to chase new prospects.

By analysing data, your AI engine can spot those investors who are potentially interested in other funds and products, and alert your sales and marketing teams.

MAKE IT EASY TO ACCESS

Data doesn't sell - people do, so all the valuable information that is revealed by your AI engine must be brought together in one place that is easily accessible and digestible by your teams.

“Tech, digital and data is taking over the world. The extraordinary advances in these fields are driving growth in all sectors - and asset management is no exception.”

STRUCTURED MARKETING

The days of ad hoc marketing are numbered. Instead, structure is taking over - and getting to grips with this concept is a vital aspect of your digital marketing efforts.

It's no longer good enough - or necessary - to send out mailings, social media posts, or anything else, on an ad hoc basis.

Instead, structure has taken over and clever marketers are sending out information in a structured way that can be planned weeks and months in advance. And this information is based around brand values, rather than performance data.

The benefit of concentrating on this is that brand values – unlike performance - do not change quickly. So, you can deliver a consistent message.

To achieve this switch, you must identify what your company stands for and what your brand represents. And then you need to concentrate your messages around that aspect of your business, as opposed to performance.

And to deliver your messages effectively, you must use a quality project management tool - such as Basecamp, Asana, JIRA etc – that allows you to put all your content and workflow into the system and schedule it all for you.

CONCLUSION

Tech, digital and data is taking over the world. The extraordinary advances in these fields are driving growth in all sectors - and asset management is no exception.

This is so profound and prevalent that the marketers who are really going to succeed - now and in the future - are those that are also effectively data scientists. These are people who understand and act on the fact that good digital marketing is all about the analytics. So, at the very least, you need someone in your marketing team with a background in data science or mathematics.

Hedge Funds Need Technology To Survive

Rowen Pillay – Edgefolio

"It should not be surprising that 94% of managers with less than $100m AUM are actively marketing their fund to prospective investors."

Raising capital in the hedge fund industry has traditionally depended on having a personal network of investor relationships. However in recent years, that model has been challenged by increased competition from cheaper, better performing products and scepticism about the effectiveness of actively managed funds. Managers, now facing pressure to reduce fees, are seeking new and more efficient approaches to maintain investor interest through the use of distribution technology and digital marketing.

EARLY NEED FOR MARKETING

In our recent study, with GPP and the AIMA, we looked at the driving growth behaviours for hedge funds. Most managers surveyed agreed on the importance of

Rowen Pillay
CEO, Edgefolio

marketing to drive growth, however a key consideration and point of evidence, was on how much should a growing hedge fund be allocating to its marketing spend and at what stage in its initial growth should marketing be a priority.

Our respondents told us that passing the $100m AUM barrier is seen as a major milestone in a fund's long-term success. Conventional wisdom says that building a fund to this threshold, with desirably low marketing costs, requires a degree of balance by demonstrating credibility with a robust track record before exposing the fund to a wider pool of potential investors.

However, it should not be surprising that 94% of managers with less than $100m AUM are actively marketing their fund to prospective investors. Additionally, those managers were spending an average of 19% of their fees revenue on marketing – up from an average of 11% for those managing over $100m AUM.

MARKETING AND COMMUNICATIONS TALENT

For emerging funds, investing in marketing can be seen as unnecessary until the fund is larger. Although this chicken and egg scenario can be problematic for managers, it was clear that investing in marketing is critical and for the need to hire a marketer early in the fund's lifecycle. Not one manager with greater than a billion dollars AUM nor any manager running between $100m and $500m AUM outsourced their marketing function.

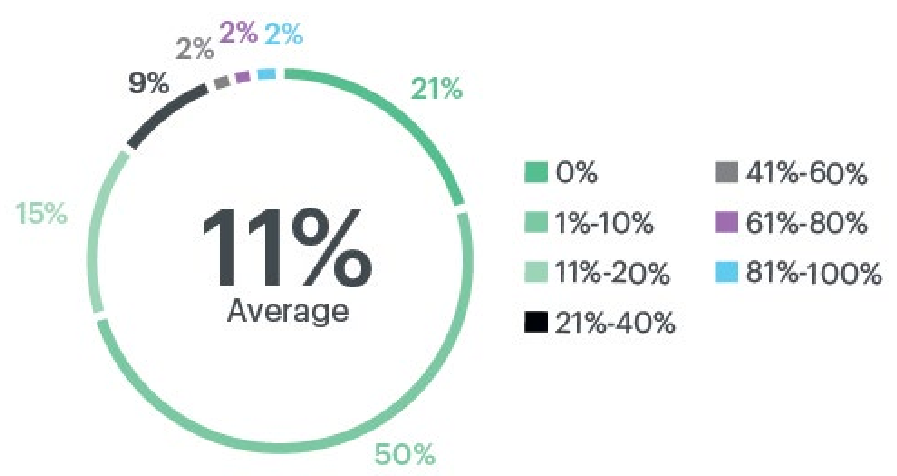
In the cases where sub $100m fund managers did not invest in marketing, it was often the case that marketing responsibilities were taken on by the role of the CEO, CIO or COO – effectively diluting time dedicated to their primary role in the interim of having a dedicated marketing function.

Investors in our survey were also shown to receive marketing content positively and expressed the importance of maintaining access to the manager during and after the investment process. By offering allocators transparency around the hedge fund strategy, approach to risk and correlation to the market, smaller funds were able to mitigate the effects of having a short track record.

INVESTORS DESIRE DATA

Investors in our survey cited that one of their main challenges was access to comparable fund data and the manual nature of due diligence in their allocation process. With a wider range of fund information and communication tools at their disposal, it's clear that

Percentage of management fees spent on marketing



Source: Making it Big Survey. AIMA, GPP & Edgefolio

Managers with an internal resource or outsource the following function

Source: Making it Big Survey. AIMA, GPP & Edgefolio

investors have come to demand a greater level of transparency, depth of information and more frequent interactions with their fund managers. Regardless of the role within the fund that fulfils a client's need for information, there is a strong case for a solution to optimise the amount of time required to satisfy this need and to ensure a consistent, scalable approach to distributing this information.

MANAGERS INVESTING IN DISTRIBUTION TECHNOLOGIES OUTPERFORM COMPETITORS

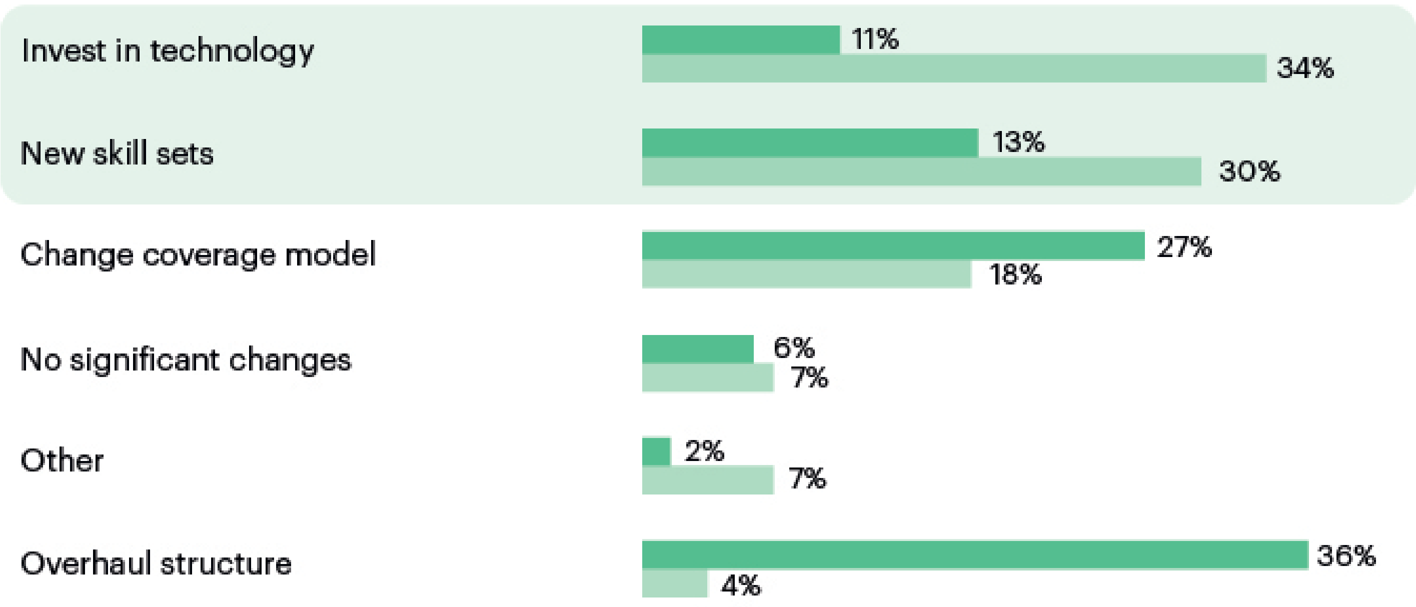
Data, analytics and digital applications tend to have the effect of increasing efficiencies by removing intermediaries and associated costs. In many cases, they also permit more personalised interactions – effectively transforming transactions into relationships.

A recent Deloitte paper – 'How Technology Will Redefine Relationships with Asset Management Clients' describes how this new dynamic applies to the asset management industry, with a focus on how distribution technologies are creating a competitive advantage for asset managers.

While many asset managers have applied standard digital marketing tools and tactics, such as having a website and a social media presence, they are often not sufficient or sophisticated enough to communicate the depth and regularity of information to satisfy new investor needs.

The paper describes that while most leaders are aware of the growing expectations gap, many have addressed it by hiring more salespeople. Throughout 2012-2017, the industry's estimated sales and marketing headcount ballooned by 50%. Such strategies often failed to pay off. During the three years ending 2017, those asset managers who ranked in the top third of peers for spending on distribution technology grew twice as fast

Most significant changes identified by distribution leaders



Source: How Technology Will Redefine Relationships with Asset Management Clients. Deloitte

as the industry overall in terms of net new flow, and eclipsed rivals in the bottom third, most of whom shrank.

Worldwide, asset managers spent an estimated $2.2 billion on distribution-related technology in 2017. Above-average investments in distribution technology tended to pay off for asset management firms with organic growth exceeding 2% per year, while net flows plummeted among weaker spenders.

Many of the managers surveyed realised the need to invest in technology in order to support a greater number of customised and complex relationships. Of those who excelled among their peers, nearly two-thirds of these distribution leaders labelled technology or new talent as a key priority for the next three to five years.

A FUTURE IN PARTNERSHIP WITH TECHNOLOGY

Increased pressure on fund managers has made it ever more important for their time to be spent effectively and on value-generating tasks for their firm. Marketing has been found to be both a key growth opportunity and a critical investment to make in an emerging fund to ensure its future success. However, the time spent on this activity, particularly by non-marketing personnel in the firm, needs to be carefully vested to ensure that other functions are tended to and that investors are in regular communication with the management team.

A solution to these time pressures can be found in asset management technology. From the initial days of Edgefolio in the Nordic markets, our clients insight into this problem benefited our investor portal as a solution to automate repetitive communications and provide investors with the ability to self-serve a funds performance information and documents.

Although "transformation" has become an overused word, it truly describes what needs to take place among distribution organisations across the asset management industry. Asset managers must understand their clients rising expectations for levels of personalised service, which increasing headcount alone will no longer be able to meet without leveraging technology.

Niclas Düring
Associate Partner
Steward Redqueen B.V

Is Your Fundraising Sustainable?

By Niclas Düring – Steward Redqueen B.V

The asset owner's way, or the highway

Sustainability has gained a lot of traction among asset owners over the past 10+ years. And where asset owners go, prospective managers of their assets follow. Usually.

What at first glance might seem puzzling however, is the large difference between asset classes in how far they have come with sustainability integration. Private equity on the one hand has long been engaged in ESG discussions. Private debt has made good strides and to some extent also benefitted from the thinking of their private equity counterparts, as well as from providing debt alongside equity investors with pronounced ESG ambitions. Public equity, infrastructure and real estate have also come a long way. Hedge funds on the other hand have, with a few exceptions, been lagging behind.

A non-comprehensive set of explanations for this lag could include lack of external pressure, internal stakeholder hesitation, and the somewhat unique set of circumstances for hedge funds which makes ESG implementation more challenging. Specifically, investors may not have a firm view and thus no corresponding externally imposed requirements either on how to integrate ESG in hedge funds. From an internal perspective a hedge fund manager may simply not believe that ESG could have an impact on returns (why beliefs should be allowed to influence this decision while other decisions are guided by facts is an interesting contradiction). A third explanation could be the type of hedge fund involved - the exposures sought, and the instruments used to deploy the strategy may not immediately point to an obvious approach for how to integrate ESG (ex. CTAs and macro funds). There are surely also other explanations, but these three are quite common.

Leaders, laggards and those in between

One option is of course to stick to the way things always have been done and not consider ESG in the slightest. The cost of doing so could be considerable in terms of fundraising and investors pulling out, while the benefit from such a course of action is not obvious, at least not in monetary terms. And if ultimately deciding to change tack, hedge funds coming late to the race will have to run a lot harder to catch up.

Another approach is to follow the general trends and get the basic building blocks in place. This could entail establishing some basic checks and exclusions, setting exposure limits and implementing reporting on select KPIs. This is essentially a hygiene factor approach. It is meant to avoid negative risk, i.e. investors dropping out, rather than seizing the opportunity to increase commitments and attract new investors.

Alternatively, one could just treat it like any other set of factors with a potential to impact the fund portfolio. Normally that would involve setting out the analytical framework, gathering and analysing the facts, run backtests and correlation analyses and estimate the explanatory power of each of the variables involved. In some ways ESG risks should not be treated differently from how other types of risks and exposures are considered. Applying such an approach will not deter any investors, so the downside risk is limited. The upside however is the possibility of attracting new clients, and larger commitments, not least as the hedge fund in question may qualify for other parts of the asset allocation for different investors.

"As ever more asset owners require robust sustainability approaches, the smaller the pool of assets from which to fundraise for those asset managers who do not embrace sustainability."

“What does matter regardless of the approach chosen is to do what makes sense from a logical, analytical, and data perspective. If it doesn’t make sense to the fund itself, it will hardly make sense to anyone else either, including potential investors.”

Default strategies

There are approximately 7-8 main strategies commonly referred to in the ESG literature. While more complementary than mutually exclusive in nature, some are more applicable to hedge funds than others.

The oldest approach is so-called negative screening, in which “sin industries” like tobacco, weapons and a few other sectors are either excluded or have defined exposure limits. ESG integration is the systematic inclusion of ESG factors throughout the investment processes, including risk and opportunity identification and potential impact on valuations. Best-in-class is about applying an additional filter in the investment process and select assets with a relatively better sustainability performance than the rest. These strategies are broadly applicable to most hedge fund types.

In addition, there are a few which are useful to some types of hedge funds. Active ownership is relevant where equity is held in individual companies and where investors seek to impact their investments during the holding period through dialogues, proxy voting and other channels. Ethical or norms-based approaches on the other hand could for example be deployed in more country index- or government bond related exposures. The approach identifies entities or states failing to meet generally accepted international norms like the UN Declaration of Human Rights, or who perform poorly on indices related to corruption or democracy for example. The underlying assumption, or even established fact, is that doing so will over time have a negative impact on how the markets develop as well.

From principles to practices

How to implement an ESG approach is not straight forward, and particularly not when it comes to hedge funds. As a set of guiding principles, ESG implementation in hedge funds becomes more challenging:

• The further away a portfolio is from individually identifiable corporate entities,

• if the instruments traded are not securities of the actual underlying exposures, but derivatives, swaps, options or indices of the same; and

• when the costs are high and/or markets are insufficiently liquid and/or lack sufficient volume.

In more practical terms, a long equity strategy is probably one of the most straight forward situations. The approach to integrating ESG may not differ much from how mutual funds or private equity funds function in this sense. Where actual stocks are held in the portfolio one could deploy a combination of negative screening and active ownership for example.

The picture gets a bit more complicated when it comes to broader types of indices on country, sector or other levels. At the same time, the number of indices with different kinds of built-in sustainability filters is expanding rapidly. An important consideration in exploring such indices is of course to ensure there is adequate liquidity and trading volume in relation to the hedge fund in question. As an option, an index exposure could be tweaked to some extent by shorting and thus netting out some of the not-desired exposures in the index.

As a second example, and a significantly more challenging one, imagine a macro strategy fund with some currency, bond and equity exposure, all obtained through derivatives (eg. currency forwards, government bond futures, country equity indices etc). Negative screening is still an option, i.e. avoiding exposure toward certain countries. Turning it around toward positive screening instead, a number of countries have begun issuing green bonds over the past 3-4 years. Considering these and exploring the related derivatives of such issues could further enhance the ESG credentials of the portfolio. Also, as far as the equity indices go, the same approach of shorting certain sector exposures or individual assets to net out the exposure is a viable approach also in this case. More refined approaches are also possible but require more tailoring and adaptation to the individual strategy, capabilities and willingness to commit resources.

What does matter regardless of the approach chosen is to do what makes sense from a logical, analytical, and data perspective. If it doesn’t make sense to the fund itself, it will hardly make sense to anyone else either, including potential investors.

Same efforts, different rewards

The correlation between effort and value is clear; Not addressing ESG as a hedge fund will over time become increasingly questioned. It is the equivalent of getting negative value (fundraising issues) for no money (at no effort, but still…). Getting zero or potentially some minor value with a fair bit of effort is equal to adopting a basic approach in line with general market trends and expectations. To stand out in the market and for ESG to contribute positively to fundraising, marketing, and overall portfolio performance, more effort is needed.

It only takes one or a few examples within each hedge fund type to show how it can be done for investors to question the others why they are not doing it. And just like a marathon, the effort involved is similar for everyone, but the price – in the form of branding, fundraising etc – is only awarded to the first few movers. Moving quickly and addressing ESG thoroughly thus adds to their sets of competitive advantages.

Fundraising from a shrinking pool of assets – or not?

Three things are clear: First, asset owners’ understanding of sustainability and their related requirements are on the increase. Second, the general public is decreasingly likely to accept that some institutions, political entities or other participants in the economy should be allowed not to integrate ESG in how they think and operate - while no one can do everything, everyone can do something, and that includes hedge funds. Third, when broken down into sufficiently specific matters, it comes down to risk management (and opportunity identification). As such, it becomes difficult (and unimportant) to separate from other types of risk and risk management, and it will increasingly become regarded as part and parcel of looking after the value of your investors’ capital.

But perhaps most important of all – as ever more asset owners require robust sustainability approaches, the smaller the pool of assets from which to fundraise for those asset managers who do not embrace sustainability. Conversely, those do who adapt, and who invest significant effort and resources into fully integrating sustainability may just have found a(nother) competitive advantage to boost their fundraising efforts.

ESG is not going away. So, where are you going?

Niclas Düring is an Associate Partner with Steward Redqueen B.V., a strategy consultancy advising hedge funds, private equity, banks and industry on sustainability strategies and impact management.

www.hedgenordic.com - December 2019 HEDGENORDIC

Fund Marketing Power House Sets Off

By Jonathan Furelid – HedgeNordic

Newly launched fund distribution specialist House of Reach wants to change the way fund marketing is being planned and executed. By having a solid footing and network in the Nordic region, the three founding partners look to build on what they believe to be a unique service offering and expand through recruiting experienced industry professionals locally.

"We want to industrialise fund marketing", founding partner Johan Wahlman explains when asked for the company's mission statement. "The old ways of doing fund marketing, where the process often comes down to a non-transparent, unstructured and not so easily measured exercise belong to the past. We also want to be more active in having a local presence of industry professionals than the traditional fund marketer."

Wahlman, previously heading the distribution efforts for Finnish asset manager FIM, joined forces earlier this year with Fredric Andersén and Peter Dahlgren to form House

of Reach. Andersén, previously with SEB, Alfred Berg, Ålandsbanken and MFEX, and Dahlgren, with numerous executive positions under his belt, including CEO of Nordnet, CEO of life and pension as well as global head of institutional clients at SEB, makes for a dynamic team with complementary skill-sets.

"We share a long experience from the fund industry and an extensive client network, but we come from somewhat different angles. Myself having worked on the business development side, setting up structures for efficient fund distribution. Johan coming from more of a legal background while Peter obviously has a unique experience given executive roles from within large organizations in the finance industry. But most of all we know each other well and enjoy working together. These factors combined I believe serve as a good foundation for a successful venture", Andersén says.

The House of Reach service offering rests on three pillars; promotion, incubation and strategic consultancy. Promotion is the more traditional part where House of Reach act as an introducer of funds to professional investors . Incubation is where the company acts as a partner to smaller start-up funds who are looking to find the right setup and distribution power. Strategic consultancy is where House of Reach outlines business and strategic plans for accessing the Nordic region given the clients offering and perceived edges.

"We want to be looked upon as a one-stop-shop fund marketing consultancy firm, primarily targeting international asset managers who want to have feet on the ground coupled with specialist knowledge of the Nordic market for fund distribution. We can advise on everything from legal setups and distribution strategic plans to performing qualitative meetings with key professional investors in the region", Andersén says continuing:

"Judging from the initial reactions we have had from potential clients so far, there is strong demand for what we have set us out to do, not only from international fund houses but also from local players."

In terms of what type of fund houses and products House of Reach look to work with, there is a clear focus on those that could bring something unique to the table, with the potential of enhancing the portfolio characteristics of allocators portfolios.

"There is no use in us trying to push another long-only global equity fund in the region. We will primarily focus on niche and alternative strategies that can improve the risk/return characteristics of institutional portfolios", Andersén says.

From the start, House of Reach will focus on a selected number of clients and make sure the quality of meetings comes first.

> "The old ways of doing fund marketing, where the process often comes down to a non-transparent, unstructured and not so easily measured exercise belong to the past. "

"We will never be a shop that aims for as many meetings as possible. The focus is to develop long lasting relationstips with clients who understand the strategic thinking behind our meeting schedules and to be completely transparent in what we do. This is the only way to build trust for the long term", Andersén says.

Looking ahead, House of Reach wants to expand with hires of experienced people having a local presence in each of the Nordic countries. The diversity of the Nordic region requires a thorough knowledge, both in terms of market connectivity, language and culture, according to Wahlman.

"I know from previous experiences that there is no way to make a carbon copy of efforts made in Sweden when approaching other Nordic countries. The differences in market structure as well as in how people reason when making investment decisions are simply too big."

"We will look to expand using local power. In the end that might mean that we also expand outside of the Nordic region. But first we want to build a strong presence in Sweden, we are already well underway, and demand for our services seems to be beyond what we could have hoped for. We are in for an exciting journey", Wahlman concludes.

Ireland now services over 40% of the world's global hedge fund assets and 63% of European hedge fund assets, making it the largest global hedge fund administration centre.

Why Ireland Ticks the box as a Fund Domicile

By Cassie Waller and Jane O' Reilly

Factors such as the regulatory environment, legal and tax regimes and innovation and ease of doing business are some of the most influential criteria in the successful operation of a fund. That is why choosing the right fund domicile is a key decision for asset managers and end investors.

Since the establishment of the funds industry in Ireland 30 years ago, it has become internationally recognised as one of the leading domiciles in which to launch funds. Ireland is regarded as a key strategic location by the world's leading players with more than 50% of the world's leading financial services firms having a base there.

This is evidenced by various criteria, including the numbers - Ireland services €4.7 trillion of assets across multiple fund structures and asset classes with 986 fund promoters from 53 countries having assets administered in Ireland. The growth of Irish-domiciled funds continues to move at pace with net assets of €2.7 trillion and 17 or 85% of the top 20 global asset managers operating Irish domiciled funds. Irish funds are distributed in more than 90 countries worldwide and net sales into Irish funds have continued to grow.

In particular, Ireland has long been synonymous with the alternative investment fund industry e.g. hedge funds, having been the first regulated jurisdiction to provide a regulatory framework specifically for the alternative investment fund industry. It strives to remain at the forefront in preparing for and reacting to, regulatory and market developments and managers and service providers enjoy a prudent but pragmatic regulatory environment. Between European legislation, the Central Bank of Ireland and the European Securities and Markets Authority, Irish funds are subject to a high level of regulation.

Ireland now services over 40% of the world's global hedge fund assets and 63% of European hedge fund assets, making it the largest global hedge fund administration centre.

Furthermore, Ireland is internationally recognised as a major hub for supporting global distribution with Euronext Ireland being internationally recognised as a leading regulated exchange for the listing of Irish and non-Irish funds. As a recognised exchange in an OECD jurisdiction, this plays an important role in helping to attract investors.

So why has Ireland been so successful? Put simply, Ireland has a proven track record in this sector offering regulatory pragmatism combined with, tax efficiency, innovation and seasoned professional expertise. The following are some of the key credentials making Ireland the domicile of choice for many asset managers.

REGULATORY EXCELLENCE

Ireland is a member of the European Union thereby benefitting from the harmonisation of EU financial services regulations offering asset managers access to the EU-wide market.

It is regulated by the Central Bank of Ireland (CBI) which provides a transparent process with clear timelines for fund and promoter authorisations. As a result of the CBI's proactive and efficient authorisation process, approval timelines are considered generally significantly faster than in other EU jurisdictions.

As an onshore jurisdiction, offering regulated products, investors' perception, reputation and longevity of the Irish funds centre have helped position Ireland as the domicile of choice for many asset managers.

LEGAL AND TAX EFFICIENCY

Ireland's legal and tax regimes are key attractions for managers when establishing an Irish domiciled fund. Post Brexit, Ireland will be the largest English-speaking common law jurisdiction in the Eurozone and provides for a broad range of fund structures.

While there are multiple fund structures serviced from Ireland, the UCITS structure has proven the most popular, representing 75% of the assets in Irish domiciled funds, and recognised as the gold standard of regulated fund structures. For alternative investments, Irish Alternative Investment Funds (AIFs) cater to the widest range of investment strategies operating within a regulated framework.

The Irish tax regime continues to play a prominent role in the successful growth of the funds sector. Ireland's tax regime is fully compliant with OECD guidelines and EU law and its efficient and transparent nature, make it very attractive to fund managers and investors. Irish domiciled funds are exempt from Irish tax on income and gains derived from their investment and are not subject to any Irish tax on their net asset value. Ireland's tax neutral regime for globally distributed investment funds has been in place since the establishment of the funds industry 30 years ago.

Other than in respect of certain funds which hold interests in Irish real estate (or particular types of Irish

Post Brexit, Ireland will be the largest English-speaking common law jurisdiction in the Eurozone and provides for a broad range of fund structures.

real estate related assets), non-Irish investors are not subject to Irish tax on their investment and do not incur any withholding taxes on from the fund.

Depending on the tax status of an investor in their home jurisdiction an Irish fund can also be structured as a tax transparent vehicle resulting in the retention of tax benefits (e.g. withholding tax) that would otherwise be lost. Ireland has one of the most developed tax treaty networks in the world across the EU, Asia, the Middle East and South America, and this continues to grow.

INNOVATION

Ireland remains at the centre of product innovation continuously developing new structures, services and technologies to meet the evolving regulatory and market environment.

There is an accelerating trend of regional offices opening across Ireland. The advantages are easily identifiable. Ireland has transport access both internationally and domestically, it is generally viewed as a neutral business environment and most importantly has an exceptional "homegrown" talent pool with world class academic institutions driving innovation every day intersecting academia and financial practice.

EXPERTISE

Ireland's professional services infrastructure is well established providing experienced and developed expertise, with specialist legal, tax and accounting skills.

Ireland's capabilities extend across a broad range of fund and asset management services with a well-developed and experienced professional specialists across asset management, fund administration, depositary, legal, tax, compliance, audit and technology services.

Closely aligned to trends across the investor community there are an increasing number of socially aware funds being launched in Ireland. Coupling this with the quickening pace of new technologies new products and the evolution of fintech's capital assets will continue to flow into the industry. Ireland looks set to retain its dominant position within the European investment funds industry.

Jane O' Reilly

Associate Director, Client Executive, Asset Manager Sector, Ireland - HSBC Securities Services

Cassie Walle

Senior Director - The Asset Management Exchange

STRUCTURING AND MARKETING OF EUROPEAN DOMICILED HEDGE FUNDS

By Florence Stainer and Sergei Bogdanov - Arendt and Medernach

Over the last few years, the appetite for alternative investment vehicles in Europe has significantly increased. The implementation of the AIFMD package in 2013, which has brought the opportunity for alternative investment structures to benefit from the European passport, has been the cornerstone of such development. Since its implementation, an increasing number of actors in the fund industry, including Nordic investment managers, are looking for AIFMD-compliant solutions to their existing management capacities, through the creation of alternative investment funds.

In the middle of such success story, the Grand-Duchy of Luxembourg is positioned as the European fund hub leader. Indeed, with more than 14,000 funds and approximately USD 4,600 bn of assets under management as at the end of 2018, Luxembourg is the second largest investment fund center in the world behind the United States. Although Luxembourg's financial center has always been considered as a UCITS funds hub, the Luxembourg's fund industry was witnessed over the last few years with a significant growth in alternative investment funds.

Nordic asset managers have traditionally been using non EU jurisdictions for the structuring of their hedge funds. So far these non EU hedge funds have faced some limitations in terms of raising assets capacities in the EU since they are not benefiting from the AIFMD passport and are hence exclusively limited to reverse solicitation and case by case basis private placement opportunities.

Whereas, there is no visibility as to the timing for the introduction of a third country passport, hedge fund managers may be keen to explore the opportunity to create funds in the EU and more particularly in Luxembourg.

Indeed the AIFMD passport allows European alternative investment fund managers to distribute alternative investment funds which it manages in any Member State of the European Union to professional investors, without additional authorisation or registration requirements.

Hedge Fund - Intrinsically alternative

The Luxembourg legal and regulatory framework offers a wide toolbox of AIFMD compliant structures, such as the SIF (specialized investment fund), the RAIF (reserved alternative investment fund) or Part II UCI, through which hedge funds may be structured. The choice of the most appropriate AIFMD compliant structure will depend on the target investor base, the level of diversification as well as of the requested level of prudential supervision by the Luxembourg supervisory authority. To illustrate this, see below a table summarizing the main features of such structures (see table on the right).

Although the SIF structure used to be the most preferred solution for alternative investment structures, the implementation of the RAIF and of the Special Limited Partnership were key milestones in the Luxembourg fund industry attractiveness over the last few years -with a shift to less regulated structures but within a regulated and protective framework whilst offering the same structuring capacities than the most well-known offshore jurisdictions – combining the best of two worlds. Indeed, although the RAIF is not directly supervised by the Luxembourg regulator it is to some extent indirectly supervised as it must appoint an authorised AIFM and comply with the AIFMD in order to ensure an adequate investor protection and the benefit from the European passport (AIFMD Passport).

AIFMD Passport

In order to activate such passport for a European alternative investment fund, the relevant European alternative investment manager must submit a notification to its home state regulator who will in return notify the relevant host state regulator. Once the home

Florence Stainier

Chair of the ALFI CMU Working group
Partner at Arendt and Medernach

Sergei Bogdanov

Associate at Arendt and Medernach

	SIF	Part II UCI	RAIF
Eligible investors	Well-informed investors only, i.e. institutional investors, professional investors and other investors provided that they formally declare themselves as well-informed investors and either invest a minimum of EUR 125,000 or obtain a certificate from a regulated entity confirming their understanding of the risks associated to the investment in SIF	No restriction	Well-informed investors only, i.e. institutional investors, professional investors and other investors provided that they formally declare themselves as well-informed investors and either invest a minimum of EUR 125,000 or obtain a certificate from a regulated entity confirming their understanding of the risks associated to the investment in RAIF
Supervision by the CSSF	Yes	Yes	No. However, RAIF has to be managed by an external duly authorised AIFM
Investment restrictions	May invest into any asset class and apply any investment policy or strategy subject to prior approval by the CSSF	High level of restrictions	May invest into any asset class and apply any investment policy or strategy
Risk-spreading requirement	Must spread the risks of its investments. In principle, investments in any target company may not exceed 30% of the SIF's assets or subscription commitments.	High level of risk-spreading requirement	Must spread the risks of its investments. The risk-spreading requirements are aligned on those applicable to SIFs. By way of derogation, RAIFs which invest exclusively in risk capital as per their constitutive documents are not bound by any risk-spreading requirement

state regulator has confirmed such notification, the marketing may immediately start in the host state. Thus, the EU passport is linked to the European alternative investment fund manager itself and not to the product as it is the case for UCITS.

UCITS used as alternative funds

Beyond the AIFMD framework, it is worth noting that the UCITS format can also provide for opportunities for the structuring of alternative investment strategies and more particularly hedge fund type strategies.

Indeed over the past few years, the Luxembourg fund industry has observed a certain convergence between traditional hedge fund products and UCITS structures, under the form of so called alternative UCITS. Over time, a certain number of hedge funds have been launched under the UCITS wrapper in Luxembourg. These alternative UCITS offer to hedge fund managers the possibility to implement their long short strategies in a UCITS compliant structure, by adapting their investment practice or trading strategies through a reduction of leverage or having more diverse portfolios and more liquid underlying assets. In comparison with the AIFMD framework, the UCITS framework offers several significant advantages, among which the UCITS passport and platform distribution.

The UCITS passport is central to the UCITS product, as it enables fund promoters to create a single product for the whole of Europe rather than having to establish an investment fund product on a jurisdiction-specific basis. Therefore, on the completion of the appropriate notification procedure, a UCITS established in one Member State can be sold in any other Member State without the need for additional authorisation. The main difference between the AIFMD passport and the UCITS passport is that through the UCITS passport, the fund may be distributed to the public, which includes retail investors, and not only to professional as it is the case for the AIFMD passport. The activation of the UCITS passport is done by way of a notification to the home state regulator of the UCITS, informing them of the intention to market such UCITS, who will in return notify the relevant host state regulator. Once the home state regulator has confirmed such notification, the marketing may directly start in the host state.

Beyond the benefit of passport for retail investors, structuring alternative strategies under the UCITS wrapper is also easing the distribution via platforms since UCITS can be sold on an execution only basis whereas since Mifid II, non UCITS funds cannot be sold any more without advice.

Conclusion

Undeniably, Europe is the place to be for the alternative investment industry. The current European legal framework as well as the various upcoming regulations, such as the ones related to PRIIPs and cross border regulation, demonstrate the willingness from the European legislator to harmonise the investment fund's legislation throughout Europe and to converge the alternative funds with the UCITS. As concerns the Grand Duchy of Luxembourg, through its important experience, this jurisdiction will continue to permit the hedge funds assets managers to provide their investors with protection and legal certainty using flexible fund structuring solutions.

Björn Wendleby

Lawyer, Founding Partner
Harvest Advokatbyrå

Legislation Governing the Establishment and Operation of Alternative Investment Funds in Sweden

HedgeNordic had asked Björn Wendleby, lawyer and founding partner at Harvest Advokatbyrå, one of Sweden´s leading law firms specializing in banking and financial law, to share his insights and rules and regulations when it comes to marketing and sales of (alternative) investments in Sweden. Over the next pages, Wendleby was kind enough to put together an overview of legislation governing the establishment and operation of Alternative Investment Funds.

1. REGULATORY FRAMEWORK

1.1 What legislation governs the establishment and operation of Alternative Investment Funds?

Alternative Investment Funds (AIFs) are regulated by the Swedish Alternative Investment Fund Managers Act (AIFMA), although the AIFMA primarily addresses AIF managers. Further regulation of AIFs is stipulated under the Swedish Financial Supervisory Authority's (SFSAs) Regulations regarding Alternative Investment Fund Managers (FFFS 2013:10).

AIFs structured as, e.g. a Swedish limited liability company or a limited partnership must, in addition, comply with applicable company law.

For a special fund, which falls within the definition of an AIF, the Swedish UCITS Act and the SFSA's Regulation regarding Swedish UCITS funds (FFFS 2013:9) apply in relevant parts.

1.2 Are managers or advisers to Alternative Investment Funds required to be licensed, authorised or regulated by a regulatory body?

i. Registration

For a Swedish AIF manager, registration with the SFSA is sufficient if the following criteria are met:

- the assets of the AIFs, including those acquired through financial leverage, do not exceed EUR 100 million; or
- the assets of the AIFs do not exceed EUR 500 million, provided that the portfolios consist of AIFs without financial leverage and without the right to redemption for a period of five years from the date of the first placement of the AIF.

An application for registration to manage AIFs shall include the following:

- information regarding the AIF manager and the AIFs and their investment strategies;
- information set out in Article 5 (1) and (2) of the AIFM Delegated Regulation 231/2013/EU (Annex IV need not be completed at registration);
- information about the investors' right to redemption; and
- a description of how marketing to retail investors is prevented.

ii. Authorisation

Given that the assets of the AIFs exceed the aforementioned thresholds, the Swedish AIF managers must apply for authorisation. In comparison with a registration process, a licence application requires additional documents to be filed with the SFSA whereby the detailed contents of the applications are set out in AIFMA and FFFS 2013:10.

In order to be an adviser, an external AIF Manager must obtain authorisation for discretionary portfolio management, and such a manager can, in addition, apply for authorisation to provide investment advice under the Swedish Securities Market Act and the SFSA's regulations governing investment services and activities (FFFS 2017:2) implementing the MiFID II Directive 2014/65/EU.

1.3 Are Alternative Investment Funds themselves required to be licensed, authorised or regulated by a regulatory body?

The authorisation requirements in AIFMA addresses AIF managers. In respect of internal AIF managers, the AIF must be authorised accordingly since the AIF manager and the AIF acts as one legal entity.

Management of additional AIFs does, however, require:

- notification to the SFSA if the Swedish AIF manager is registered under AIFMA; or

- authorisation by the SFSA if the Swedish AIF manager is authorised under AIFMA.

Regarding special funds, the fund's articles of association must be approved by the SFSA.

1.4 Does the regulatory regime distinguish between open-ended and closed-ended Alternative Investment Funds (or otherwise differentiate between different types of funds or strategies (e.g. private equity v hedge)) and, if so, how?

The regulatory regime does distinguish between open-ended and closed-ended AIFs, for example with regards to regulation regarding asset valuation. Furthermore, the regulatory regime, to some extent, distinguishes between special funds and other AIFs. Unlike other AIFs, a special fund is obligated to be opened for redemption at least once a year.

1.5 What does the authorisation process involve and how long does the process typically take?

A Swedish AIF manager, exceeding the thresholds mentioned above (question 1.2), must apply for authorisation in accordance with AIFMA and FFFS 2013:10. After the application has been filed and the application fee paid (currently SEK 350,000), the SFSA starts processing the matter. The handling time for the application is three months but if there are special circumstances the SFSA can extend the handling time by an additional three months. However, it should be noted that the process can be delayed and applicants should expect a handling time of six to nine months.

1.6 Are there local residence or other local qualification requirements?

A Swedish AIF manager must have its registered office and conduct its business in premises located in Sweden. Additionally, the Swedish AIF manager shall, depending on its legal structure, comply with certain residency requirements under company law. For example, in the case of a Swedish AIF manager legally structured as a limited liability company not less than one-half of the members of the board of directors, and the managing director, shall as a main rule be domiciled within the EEA. At least one of the persons authorised to represent the company and act as an authorised signatory shall be domiciled within the EEA. In the event that the limited liability company has no authorised representative who is resident in Sweden, the board of directors shall authorise such person to act as agent for service of process on behalf of the company (special agent for service of process).

1.7 What service providers are required?

A Swedish AIF manager shall ensure that a depositary is designated for each Swedish AIF managed by the company. The depositary shall maintain its registered office in Sweden or, in cases where the depositary is a branch established in Sweden, in another country within the EEA.

1.8 What rules apply to foreign managers or advisers wishing to manage, advise, or otherwise operate funds domiciled in your jurisdiction?

The following applies to foreign AIF manager wishing to offer AIFs in Sweden:

- A foreign EEA-based AIF manager, who has such authorisation in its home Member State as referred to in the AIFM Directive 2011/60/EU may, following a notification to the SFSA market units or shares in an AIF (not a special fund) domiciled in Sweden. If the AIF manager's authorisation in its home Member State includes the right to provide investment advice, such services may, after notification to the SFSA be carried out in Sweden in accordance with Chapter 5, Section 1 (2) of AIFMA.

- A foreign EEA-based AIF manager, who has such authorisation in its home Member State as referred to in the AIFM Directive 2011/60/EU may, following authorisation from the SFSA market units or shares in a special fund.

- A foreign AIF manager based in a country outside the EEA may market units or shares in an AIF managed by a manager in Sweden, following authorisation from the SFSA.

The detailed contents of the authorisation applications and notifications are stipulated in AIFMA and FFFS 2013:10.

Regarding marketing to retail investors, see question 3.5.

1.9 What co-operation or information sharing agreements have been entered into with other governments or regulators?

Information on co-operations and information sharing agreements entered into by the Swedish government, is available on https://www.government.se/.

2. FUND STRUCTURES

2.1 What are the principal legal structures used for Alternative Investment Funds?

An AIF can take the legal form of a special fund, or an association, such as a limited liability company, trading partnership or a limited partnership. Whether an association constitutes an AIF is, however, to be determined based on the object of the association, i.e. if the object meets the criteria of an AIF pursuant to Article 4 of the AIFM Directive 2011/61/EU.

In Sweden, real estate funds and private equity funds are commonly structured as limited liability companies or limited partnerships.

2.2 Please describe the limited liability of investors.

As a main principle, an investor of an AIF is only liable to the amount invested. However, exceptions may occur based on the legal structure of the AIF manager. For example, in relation to an internal AIF manager legally structured as a limited partnership (Sw. kommanditbolag), the general partner and investor (Sw. kommanditdelägaren) is personally responsible for the agreements and debts of the limited partnership.

2.3 What are the principal legal structures used for managers and advisers of Alternative Investment Funds?

An AIF manager can either be internal meaning that the AIF manager, due to its legal structure, can manage the administration of the AIF itself (for example a limited liability company that also constitutes the AIF); or external (for example a Swedish limited liability company authorised to manage AIFs) meaning that the AIF manager is separate from the AIFs.

2.4 Are there any limits on the manager's ability to restrict redemptions in open-ended funds or transfers in open-ended or closed-ended funds?

There are no legal limits except from the limits on special funds. For special funds, a Swedish AIF manager must specify in the fund's articles of association the conditions for transfers and whether it shall be possible to close the fund for subscription of new units. If the special fund can be closed, the fund's articles of association must state under what objective conditions such a measure is possible.

According to AIFMA special funds must, however, be open for redemption at least once a year.

2.5 Are there any legislative restrictions on transfers of investors' interests in Alternative Investment Funds?

There is no explicit legislative restriction on this matter. Restrictions on transfers of investors' interests may, however, be stipulated in the AIF's articles of association, investment policy or equivalent regulation of the AIF.

2.6 Are there any other limitations on a manager's ability to manage its funds (e.g. diversification requirements, asset stripping rules)?

www.hedgenordic.com - December 2019
HEDGENORDIC

In addition to the asset stripping provision in AIFAM, implementing Article 30 of the AIFM Directive 2011/61/EU, there are general legal limitations imposing the AIF manager to act honestly, fairly and in the best interest of the AIF, and to ensure public confidence in the financial market.

In effect, the AIF manager must adhere to the fund's articles of association, investment policy or equivalent regulation of the AIF, which normally contains certain diversification requirements.

3. MARKETING

3.1 What legislation governs the production and offering of marketing materials?

The legislation governing the production and offering of marketing materials are:

- The Swedish Marketing Practices Act.
- The Swedish UCITS Act (partly with regards to special funds).
- The AIFMA.
- The Swedish Investment Fund Association's (Sw. Fondbolagens Förening) guidelines for marketing and information by fund management companies.
- The Swedish Consumer Agency (Sw. Konsumentverket) and the Swedish Investment Fund Association's agreement on rules for the marketing of funds.

3.2 What are the key content requirements for marketing materials, whether due to legal requirements or customary practice?

All marketing shall be designed and formulated in accordance with good marketing practice (laws and other ordinances, legal precedents, good business practice, etc). The content requirement varies, e.g. depending on whether the AIF is offered to professional or retail investors, and whether the AIF and/or the AIF manager is based within or outside the EEA. However, in general the key information to be provided is the AIF's articles of association or equivalent documents, prospectus, information on risks, fees and other charges, and information identifying the AIF's depositary. An AIF manager solely marketing AIFs to professional investors shall within the application to the SFSA, provide information on the measures adopted and taken to prevent units and shares in the AIF from being marketed to retail investors.

If marketing material extends an offer to retail investors, it shall be made clear in the offer that the KIID and full prospectus of the AIF are available and details shall be provided of where they can be obtained. AIF managers are under a duty to provide a clear account of all fees and charges in the fund's KIID and full prospectus, which shall be made available to customers before any units are bought.

3.3 Do the marketing or legal documents need to be registered with or approved by the local regulator?

Except from the documents being filed to the SFSA within the notification and/or the authorisation process, no other marketing or legal documents need to be registered with or approved by the local regulator.

3.4 What restrictions are there on marketing Alternative Investment Funds?

There are restrictions on marketing to retail investors. AIF managers marketing AIFs to professional investors must take measures to prevent units and shares in the AIF from being marketed to retail investors.

In addition, see question 3.6.

3.5 Can Alternative Investment Funds be marketed to retail investors?

i. Swedish-based AIF managers

Swedish AIF managers authorised under AIFMA can market special funds to retail investors. Other AIFs can also be offered to the public, but in that case the AIF must have been admitted to trade on a regulated market.

A Swedish AIF manager registered in accordance with AIFMA can, after approval by the SFSA, market units to a retail investor who (i) undertakes to invest a minimum of EUR 100,000, and (ii) in writing, in a separate document, states the awareness of the risks associated with the investment.

ii. EES-based and Non-EES-based AIF managers

An EES-based and non-EES-based AIF manager's marketing of units or shares in AIFs to retail investors requires authorisation from the SFSA. If a foreign AIF is equivalent to a special fund, there is a possibility to apply for authorisation to market the fund to the public, even though the fund is not admitted to trade on a regulated market. However, in practice, the SFSA hardly ever approves such an application.

3.6 What qualification requirements must be carried out in relation to prospective investors?

A Swedish AIF manager solely authorised under AIFMA, must take measures to prevent units and shares in the AIFs from being unintentionally marketed to prospective investors domiciled abroad.

In addition, see question 3.4.

3.7 Are there additional restrictions on marketing to public bodies such as government pension funds?

No, there are no such additional requirements.

3.8 Are there any restrictions on the use of intermediaries to assist in the fundraising process?

A Swedish AIF manager can use intermediaries to assist in the fundraising process. The fundraiser may, however, require a licence under, e.g. the Swedish Securities Market Act. In accordance with the AIFM Directive 2011/61/EU, an EES-based AIF manager's fundraising in another EES Member State may be considered a cross-border activity. Such activity requires authorisation or notification, depending on the type of activity being pursued by the AIF manager.

3.9 Are there any restrictions on the participation in Alternative Investments Funds by particular types of investors, such as financial institutions (whether as sponsors or investors)?

Except for what is stated above regarding professional and retail investors, there are no such legal restrictions. However, the AIF's articles of association, investment policy or equivalent regulation of the AIF, may stipulate specific boundaries on participation.

Where Morningstar Meets Tripadvisor


Oren Kaplan, CEO & Founder - SharingAlpha

By Eugeniu Guzun - HedgeNordic

From their base just outside Tel Aviv, the two brothers Oren and Yuval Kaplan set out to revolutionize how fund managers and investors may find another from the other side of the world. Dubbed as "where Morningstar meets TripAdvisor" by the Financial Times (we also believe to find some sprinkles of a Tinder-like application), SharingAlpha represents a go-to place for both fund managers and selectors.

PLATFORM MEMBERS PICK THE FUTURE WINNING FUND

Currently the world's largest platform in terms of the number of professional fund buyers contributing to fund ratings, SharingAlpha offers active fund managers "the possibility to grow and scale more rapidly and effectively," according to Oren Kaplan. "This is done by moving away from the current rating model where advisors work in silos to a more centralized approach in which their views are shared on a dedicated platform," he explains.

Under normal circumstances, a strong-performing South African fund with limited marketing and sales resources may struggle to find investors outside its home country. Even then they would go along the well-trodden paths to the financial hubs in London, New York or Hong Kong. This is where SharingAlpha can step in and democratize the "investor meets fund manager" process, thanks to its wide network of professional fund buyers and their ratings.

There are several benefits fund managers can extract from SharingAlpha's fund ratings platform, one of which is the exposure through the qualitative rating their funds receive from professional fund investors and analysts. Fund selectors rate funds on three parameters expected to influence future performance: People – the experience and competitive edge of the fund management team; Price – the costs associated with the fund; and Portfolio – the way the strategy is managed in terms of risk management, ESG practices, among others. Each fund then receives a single rating that reflects fund selectors' combined expectations on the three P's, a process we are familiar with from the likes of Morningstar and others.

SharingAlpha also "offers fund providers the opportunity to engage with professional fund buyers via our 'Meet the Managers' sessions," adds Oren Kaplan. Last but not least, fund managers get access to the market intelligence data collected on the SharingAlpha platform. All of these benefits stem from SharingAlpha's network of professional fund investors and analysts.

Indeed, one of the objectives of the SharingAlpha ratings platform is to put the spotlight on unknown, smaller and emerging players in the active investment management arena. According to Oren Kaplan, "no single research team can cover a wide range of funds available and thus typically focus their efforts on a very limited number of funds, those with an excellent track record that have become blockbuster or 'mega funds'." The Nordic hedge fund space, where a large part of assets under management are concentrated to a few big names, is a case in point. SharingAlpha's model, however, "offers the same chances to all fund managers, be they large international firms or small local boutiques. Simply put, you can vastly increase your chances of creating a bigger radar blip on the screens of asset owners and investors."

FAME THE WINNERS, DON'T SHAME THE LOSERS

SharingAlpha attracts professional fund buyers to use and interact with the platform by offering them a series of unique advantages. "We offer professional fund investors and analysts the opportunity of building a proven track record of their fund selection capabilities," Oren Kaplan tells HedgeNordic. "Now, for the first time, fund specialists that select fund managers also have an opportunity of standing out among their peers."

The platform offers fund selectors the possibility to build a proven track record through two ranking mechanisms. "One is based on the performance of a virtual fund of funds" created by fund specialists on the SharingAlpha platform. The other mechanism relies on "the value of the fund specialists' commentary as voted by their fellow community members." The better the track record of a professional fund buyer, the higher the weight of his or her rating in the calculation of fund ratings becomes. "We provide a higher weighting to raters that have a better track performance on the platform," summarizes Oren Kaplan.

"The innovative idea to rank the raters and by doing so, offering them enough motivation to share their opinions, has turned SharingAlpha into a real game-changer in the industry," Oren Kaplan tells HedgeNordic. More importantly, with the members of the SharingAlpha platform determining which funds to rate and how the funds are rated, many issues surrounding potential conflict of interests that are present in the traditional rating industry are eliminated.

SHARINGALPHA'S FUTURE

Based on a methodology widely used in other industries, "SharingAlpha enjoys a much more scalable rating model and has a good chance of becoming the market leader in a relatively short period of time as the pace of change has rapidly increased nowadays," emphasizes Oren Kaplan. The SharingAlpha platform includes members from 74

> "SharingAlpha's model offers the same chances to all fund managers, be they large international firms or small local boutiques. Simply put, you can vastly increase your chances of creating a bigger radar blip on the screens of asset owners and investors."

countries, including all the Nordic countries, with over 12 thousand professional fund buyers currently serving as members of the growing community.

SharingAlpha "offers professional fund buyers a way to improve their personal brand, and thus their career prospects and complement their fund research activities by leveraging on insights gathered from a large and growing group of specialists," according to Oren Kaplan. "Obviously, the longer the track record, the more significant it becomes; hence, professional fund investors are incentivized to start building their track record without delay," he emphasizes.

"Using the power of the internet, we are able to scale and offer forward-looking ratings on funds from our community of professional fund investors," Oren Kaplan comments on the scalability of SharingAlpha and closes "we plan on spending further resources on growing internationally and see the Nordic region as one of the places we should focus our efforts.

TIME TO CLOSE THE TAP

By Eugeniu Guzun – HedgeNordic

While not very known in the Nordics (or so I thought), Jeffrey Vinik made a name for himself after succeeding Peter Lynch as the manager of the Fidelity Magellan Fund in 1990s before starting his own hedge fund a few years later. After shutting down his hedge fund on two prior occasions, most recently in 2013, Vinik announced in January of this year that he was planning to reopen the fund again.

Vinik had hoped to raise $3 billion by March 1, 2019 but ended up raising only $465 million, according to a regulatory filing cited by the Wall Street Journal. Painfully, even this was only achieved with lowered fees. This story shows that raising capital in an environment where investors are pulling money from the hedge fund industry is a daunting task. "It has been much harder to raise money over the last several months than I anticipated," Vinik said in a letter to investors.

www.hedgenordic.com - December 2019
HEDGENORDIC

Although at one point Vinik Asset Management was managing more than $500 million in assets, Vinik recently announced plans to close down his hedge fund firm yet again by mid-November. Vinik needed to raise more capital for the "economics to make sense," he told the Wall Street Journal. "I honestly believed, obviously foolishly, that I could raise $3 billion by March 1," Vinik said. "What I learned after probably 75 meetings is the hedge fund industry of 2019 is very different than the hedge fund industry when I started in 1996, and it's even very different from the hedge fund industry when I closed in 2013," Vinik recently said in an interview with the Journal.

What really changed? Rising competition is one problem. There were around 500 hedge funds up and running in 1990, which managed a combined $39 billion. There are more than 8,000 operating hedge funds currently, managing a combined volume of more than $3.2 trillion. The rise of quantitative and passive investment vehicles such as exchange-traded funds is another problem. Among other things, this development has put pressure on the fees charged by active managers. There may well be many different reasons why hedge funds have been facing difficulties to raise new capital or keep the existing one (performance below investors' expectations, for one). However, the reasons for these difficulties represent a whole different topic.

Let the Numbers Do the Talking

According to data provider eVestment, the global hedge fund industry oversees $3.26 trillion in assets under management. This figure is near the industry's all-time high, as performance gains in 2019 lifted hedge fund assets. But statistics on investor redemptions depict a gloomier picture for the industry. From the beginning of 2016 to the end of August of this year, investors withdrew a cumulative $185 billion from the global hedge fund industry. Net redemptions amounted to $112 billion in 2016, followed by a brief hiatus in 2017 when the industry attracted $28 billion in net inflows. Last year saw investors pull a net $37 billion from hedge funds and this year has been worse. Net redemptions reached $64 billion year-to-date through the end of August, according to eVestment. This volume of redemptions accounts for about two percent of the industry's assets. In perspective: that is pretty much the size of the Nordic hedge fund industry (where the Swedish hedge fund industry is the second-largest in Europe).

> "From the beginning of 2016 to the end of August of this year, investors withdrew a cumulative $185 billion from the global hedge fund industry."

Figure 1: Net investor flows across various hedge fund strategies

Year	*All Hedge Funds*	*Long/Short Equity*	*Event Driven*	*Directional Credit*	*Relative Value Credit*	*Macro*	*Managed Futures*	*Multi-Strategy*	*Market Neutral Equity*	*Emerging Markets*
2014	88,3	34,82	42,47	1,71	6,58	-19,13	-35,06	44,44	3,38	1,77
2015	44,09	9	-19,47	-4,79	-5,63	1,14	13,47	56,34	0,67	-7,69
2016	-111,64	-26,75	-40,06	-16,53	-11,37	-9,76	10,18	-8,81	-0,83	-0,61
2017	27,72	19,2	-6,76	6,14	-7,77	9,37	3,86	-4,11	11,57	8,5
2018	-37,18	-10,74	-3,53	4,2	-5,42	5,38	-19,33	-19,32	12,38	-3,17
YTD 2019*	-63,61	-31,14	13,28	-5,84	-2,35	-18,61	-10,62	-4,72	-1,16	1,94

Source: eVestment. Year-to-date through August. Values denominated in USD billions.

Partly because the long/short equity strategy accounts for the highest portion of hedge fund assets, stock pickers recorded the largest volume of net redemptions in the past 44 months. Investors withdrew a net $49 billion from long/short equity hedge funds since the beginning of 2016 to the end of August, with this volume accounting for about one-fourth of the entire $185 billion in net redemptions since the start of 2016. The subdued returns from the group in the past several years, when global stock markets were roaring ahead, might have created a more selective investor base.

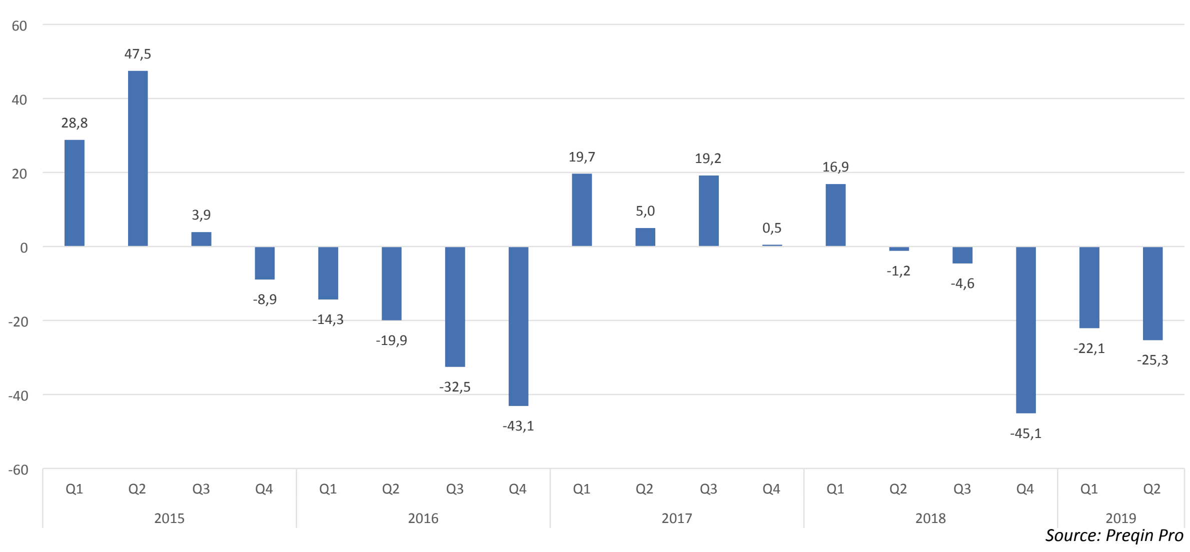
Event-driven and multi-strategy hedges funds each accounted for about 20 percent of the absolute volume of net redemptions since 2016. In the 44 months through August, investors withdrew a net $37 billion from event-driven funds, which include activist hedge funds, merger arbitrage funds, distressed securities funds, and other similar strategies. An additional $37 billion was withdrawn from multi-strategy hedge funds. Managed futures funds experienced net withdrawals of $16 billion in the past 44 months after investors pulled out $19 billion from the strategy group last year and an additional $11 billion in the first eight months of 2019. The accelerating net redemptions from managed futures funds, mainly consisting of trend-following quant strategies designed to protect portfolios in turbulent market environments, likely stems from the lack of protection from the group in 2018 and the final quarter of 2018 in particular.

According to eVestment, market-neutral funds attracted $22 billion in net inflows since the beginning of 2016, perhaps the surest sign of investors looking for sources of uncorrelated returns. Emerging markets hedge funds also received net inflows during this period, attracting almost a net $8 billion from investors. All other strategy categories tracked by eVestment experienced net redemptions since 2016 through the end of August.

Despite using a slightly different breakdown of strategies and a slightly different universe, Preqin data shows a similar trend in hedge fund redemptions. In the second quarter of 2019, hedge funds recorded net outflows for a fifth consecutive quarter. The industry, which oversees $3.60 trillion as of the end of June as per Preqin, incurred net redemptions of $147 billion since the beginning of 2016 to the end of June of this year. According to Preqin data, equity strategies suffered net redemptions of $109 billion in the 42 months through the end of June. After the prolonged bull period enjoyed by equity investors in recent years, stock-picking hedge funds might not have represented a very appealing investment alternative in retrospective.

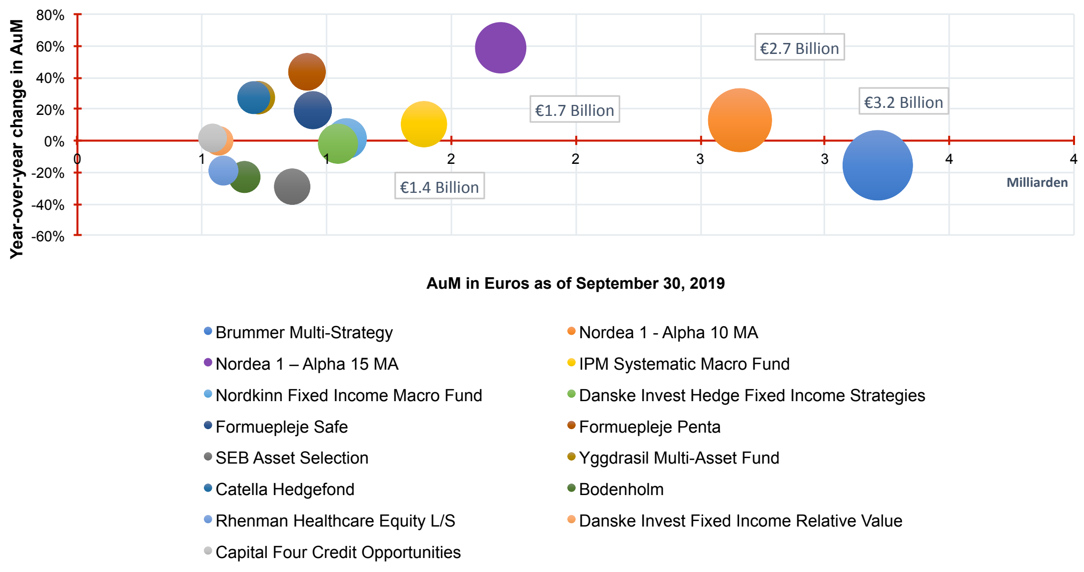
www.hedgenordic.com - December 2019
HEDGENORDIC

Figure 2: Quarterly hedge fund asset flows from Q1 of 2015 to Q2 2019



Source: Preqin. Values denominated in USD billions.

Figure 3: The 15 largest hedge funds in the Nordics as of September 2019



Source: HedgeNordic. Values denominated in Euros.

The Nordic Hedge Fund Industry in Focus

More Nordic hedge funds closed their doors in 2019 than in any year since I joined HedgeNordic in 2016. More than 20 funds have been closed so far in 2019, which is a considerable number relative to the size of the Nordic hedge fund industry. Whereas most hedge fund closures passed by unnoticed, there were some high-profile closures too. Nektar, Sweden's oldest hedge fund, was liquidated in May after 21 years of existence. Hedge fund closures in the Nordics have been plenty. New Launches? Not so many. Yet, our statistics show that the majority of the existing hedge funds in the Nordics succeeded in raising assets in recent years despite a difficult asset raising environment.

Of the 66 hedge funds with assets under management data for both September 2019 and December 2016 (122 existing members of the Nordic Hedge Index were running at that point in time), 37 enjoyed an increase in assets and 29 experienced a decline in assets from December of 2016 to September this year. Furthermore, of the 77 funds with data for both September 2019 and December 2017, 38 saw their assets under management increase during the 21-month period starting December 2017. This year, 48 hedge funds (out of the 90 funds with data for both September 2019 and December of last year) saw an increase in assets and 42 funds experienced a decrease in their asset base.

> "...the Nordic hedge fund universe is known for consisting of a few giants with capital over 1 billion, whereas the vast majority of funds are managing assets below 300 million."

The number of winners and losers in terms of assets, however, does not tell whether the industry has taken in new money from investors. After all, the Nordic hedge fund universe is known for consisting of a few giants with capital over €1 billion, whereas the vast majority of funds are managing assets below €300 million. If a very large fund such as Brummer Multi-Strategy, which manages over €3 billion, would see an increase in assets of 10 or 20 percent during a given period, the monetary-amount increase may well offset much of the potential decrease in assets of all the remaining players.

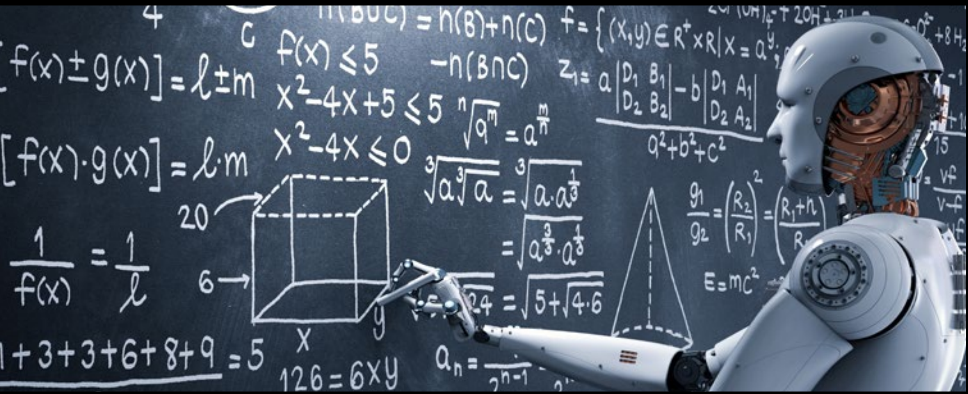
The 38 hedge funds with an increase in assets from December 2017 to September of this year registered a combined increase in assets of €4.64 billion. Two of funds from Nordea's Alpha family – Nordea 1 – Alpha 10 MA and Nordea 1 – Alpha 15 MA – accounted for 43 percent of the increase. The 39 hedge funds that registered a decrease in assets, meanwhile, collectively lost €2.67 billion in assets from December of 2017 to September this year.

Of course, the reality may differ from the picture depicted by our statistics. For one, our data does not reflect the money leaving the industry as a result of hedge fund closures. Although Nektar managed around SEK 10 billion in assets at the end of March, Brummer & Partners redeployed most of the capital towards other hedge funds under its umbrella. Furthermore, our database mostly reflects the assets under management of each fund's main share class rather than the overall strategy assets. The reality may look much better or terribly worse than our data suggests. Yet, there are signs that some hedge fund players in the Nordics have been doing well, both in terms of performance and asset gathering.

Nordea's two above-mentioned funds saw their assets increase by almost €2 billion in the 21-month period to September. IPM Systematic Macro Fund registered an increase of about €400 million (not all strategy assets across all mandates), and Formuepleje Penta saw an increase in assets of a similar volume (about €377 million) during the 21 months to the end of September. Stockholm-based hedge fund house Atlant Fonder also enjoyed strong gains in assets, with its range of funds registering a combined increase in assets of around €200 million during the same time span.

HEDGENORDIC

"Your single access point to the Nordic Hedge Fund Industry"



www.hedgenordic.com

GENERAL TERMS AND CONDITIONS

These are the terms and conditions which govern the use of „HedgeNordic Industry Report", an online magazine edited and distributed by electronical means and owned, operated and provided by Nordic Business Media AB (the "Editor"), Corporate Number: 556838-6170, BOX 7285, SE-103 89 Stockholm, Sweden.

DISCLAIMERS AND LIMITATIONS OF LIABILITY

1. The Content may include inaccuracies or typographical errors. Despite taking care with regard to procurement and provision, the Editor shall not accept any liability for the correctness, completeness, or accuracy of the fund-related and economic information, share prices, indices, prices, messages, general market data, and other content of „HedgeNordic Industry Report" ("Content"). The Content is provided "as is" and the Editor does not accept any warranty for the Content.

2. The Content provided in „HedgeNordic Industry Report" may in some cases contain elements of advertising. The editor may have received some compensation for the articles. The Editor is not in any way liable for any inaccuracies or errors. The Content can in no way be seen as any investment advice or any other kind of recommendation.

3. Any and all information provided in „HedgeNordic Industry Report" is aimed for professional, sophisticated industry participants only and does not represent advice on investment or any other form of recommendation.

4. The Content that is provided and displayed is intended exclusively to inform any reader and does not represent advice on investment or any other form of recommendation.

5. The Editor is not liable for any damage, losses, or consequential damage that may arise from the use of the Content. This includes any loss in earnings (regardless of whether direct or indirect), reductions in goodwill or damage to corporate.

6. Whenever this Content contains advertisements including trademarks and logos, solely the mandator of such advertisements and not the Editor will be liable for this advertisements. The Editor refuses any kind of legal responsibility for such kind of Content.

YOUR USE OF CONTENT AND TRADE MARKS

1. All rights in and to the Content belong to the Editor and are protected by copyright, trademarks, and/or other intellectual property rights. The Editor may license third parties to use the Content at our sole discretion.

2. The reader may use the Content solely for his own personal use and benefit and not for resale or other transfer or disposition to any other person or entity. Any sale of Contents is expressly forbidden, unless with the prior, explicit consent of the Editor in writing.

3. Any duplication, transmission, distribution, data transfer, reproduction and publication is only permitted by
   i. expressly mentioning Nordic Business Media AB as the sole copyright-holder of the Content and by
   ii. referring to the Website www.hedgenordic.com as the source of the information.

   provided that such duplication, transmission, distribution, data transfer, reproduction or publication does not modify or alter the relevant Content.

4. Subject to the limitations in Clause 2 and 3 above, the reader may retrieve and display Content on a computer screen, print individual pages on paper and store such pages in electronic form on disc.

5. If it is brought to the Editor's attention that the reader has sold, published, distributed, re-transmitted or otherwise provided access to Content to anyone against this general terms and conditions without the Editor's express prior written permission, the Editor will invoice the reader for copyright abuse damages per article/data unless the reader can show that he has not infringed any copyright, which will be payable immediately on receipt of the invoice. Such payment shall be without prejudice to any other rights and remedies which the Editor may have under these Terms or applicable laws.

MISCELLANEOUS

1. These conditions do not impair the statutory rights granted to the readers of the Content at all times as a consumer in the respective country of the reader and that cannot be altered or modified on a contractual basis.

2. All legal relations of the parties shall be subject to Swedish law, under the exclusion of the UN Convention of Contracts for the international sale of goods and the rules of conflicts of laws of international private law. Stockholm is hereby agreed as the place of performance and the exclusive court of jurisdiction, insofar as there is no compulsory court of jurisdiction.

3. Insofar as any individual provisions of these General Terms and Conditions contradict mandatory, statutory regulations or are invalid, the remaining provisions shall remain valid. Such provisions shall be replaced by valid and enforceable provisions that achieve the intended purpose as closely as possible. This shall also apply in the event of any loopholes.