# AIMA AUSTRALIA HEDGE FUND FORUM 2014

## MESSAGE FROM AIMA

It was with some amazement that, at the end of the second AIMA (Alternative Investment Management Association) Australia Hedge Fund Forum, I was again saying farewell to a nearly full room of attendees. Who goes to a conference where that happens at all, let alone in successive years? It's a great vote of confidence, I think, that we are heading in the right direction as an association and as an industry.

We were able to showcase a range of good Australian managers and it was pleasing to me that a good deal of focus is now being given by local firms to expanding away from just Australian based investments to at least the broader Asia-wide universe. We have a distinct time zone advantage and a fine investment management pedigree that can, and should, be brought to bear on this broader playing field. It was noted that our geographical location actually leads to a certain objectivity and detachment that is a key ingredient in being able to earn consistently good returns for investors. All of these factors contribute to a permanent sustainable edge for our manager members and I would strongly encourage them all to keep expanding their focus along these lines.

Another pleasing feature of this year's event was the increased contribution from regional and global AIMA members reinforcing the association's wide reach and clearly bolstering the calibre of debate and discussion throughout the day. I thought the panels were all enlightening and well organized and my sincere thanks go out to all moderators and panelists for doing such a good job.

**ABOVE** *Keith Haydon, FRM and Paul Chadwick, AIMA Australia*

The **AIMA Australia Hedge Fund Forum 2014** was held at the Sydney Sofitel Wentworth on Tuesday 16 September.

The full day event showcased the skill of local managers, their approach to business and their market views to local and international delegates.

Discussion also focused on how the Australian hedge fund industry can better engage with investors, and touched on the regulatory and market forces that are shaping the industry's future.

Nearly 300 investors, managers and service providers attended the forum, making it the largest conference of its kind in Australia.

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It has been my aim to have the event as a forum for genuine industry relevant discussion and evaluation without cheap product spruiking and vested interest promulgation and I really think we are getting there. Keith Haydon was a delight to meet and my fireside chat with him was most definitely full and frank and more important insightful. An alternative management industry ought to be, by definition, different so it is important that we remember this and keep demonstrating intelligent innovation in all aspects of what we do and I thought Keith did this admirably.

I'm also very grateful for the tremendous support from the local investor community and their advisors. Such support clearly means they are intrinsically interested in what we do so it is important that the local industry doesn't despair and keeps striving for best practice. Time and again I heard statements from investors that they viewed all prospective managers equally and essentially tried to apply a consistent set of criteria to manager choice. It may well be argued that they should actually favour local managers as part of their overall mission in life as guardians of Australians' wealth but that's another story. It is, however, reassuring to know that they don't go the other way and discriminate against local talent!

Finally, I can't thank our sponsors enough. The day is clearly well received with nearly 300 attendees this year and there is demonstrable dynamic participant interaction so I sincerely hope that our sponsors too reap the benefit of such a constructive environment. We couldn't do this without them and to Ernst & Young, Citco, Deutsche Bank, Imagine and Willis Insurance go all our heartfelt thanks.

**Paul Chadwick**
AIMA Australia Chairman


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## THEY SAID

### ON CHINA

*'The good thing about Chinese policy is that they stick to it. In Australia, as we've seen over the past few years, we tend to flip flop.'*
*– Josh Best, KIS Capital, 01.*

*'They make five-year plans and announce them. We don't make five-month plans.'*
*– Mark Nelson, Caledonia, 02.*

### ON REGULATION

*'A lot of regulations make things more dangerous. Where I live at Manly, there's a rock which kids jump off into the water. It's called 'Jump Rock'. The council thought this was dangerous and put a fence around the rock. Now the kids climb the fence to jump from an even higher position.'*
*– Phil King, Regal Funds Management, 03.*

### ON SIZE

*'For me, the range of $500 million to $1 billion is where hedge funds operate most safely. But that's only about 4 per cent of the global funds universe. As you get bigger, you can almost hear the pips squeak… 68 per cent are in stuff that are over $5 billion. That's a problem I think.'*
*– Keith Haydon, FRM, 04.*

### ON RETURNS

*'There is just not a lot of return out there. If you want to get 7-8 per cent net, that's a lot of alpha without getting a cash return [as a base]. Maybe you should stop trying to get the same return all the time.'*
*– David George, Future Fund, 05.*

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## HIGHLIGHTS FROM THE FORUM INCLUDED:

### AUSSIES BEST IN LOCAL SHARES

Australian hedge fund managers are 'clearly' skillful in long/short Australian equities and 'possibly' skillful in fixed interest but are lagging international managers in global macro, over the past 10 years, according figures produced by Australian Fund Monitors for AIMA Australia. But, over the past five years, Australian global macro managers have performed as well as their international counterparts.

### DISTANCE NOT NECESSARILY A HINDRANCE

With the centre of the investing universe shifting away from New York and London and towards China, Australia's distance from the major markets is becoming less of an issue. Being in, or close to, the Asian time zone will increasingly be an advantage.

### THE TECH AND CLEAN TECH REVOLUTION

The pace of technological development, coupled with the ESG-driven demand for clean energy is creating a "revolution" in the financial sector which is broader and moving faster than the deregulation period of the 1980s, according to Ivan Wheen, managing director of Nanuk Asset Management. The revolution is encompassing everything from manufacturing to services.

### NEW WAVE IN HEDGE FOFS

The value proposition from hedge funds of funds (FoFs) is continuing to evolve. The most recent shift, because of increasing involvement in the space by big asset consulting firms, is for hedge FoFs to "ask clients what they want and then run around and do the leg work", according to Keith Haydon, the CIO of international hedge FoF manager FRM.

One of the things hedge FoFs can do well is solve problems, he said. They have evolved from a product-pushing industry to a service industry.

### CALPERS MAY HAVE UNREALISTIC EXPECTATIONS

The decision by CalPERS in the US to review its US$4 billion hedge fund program, announced the weekend before the Forum, was because the public sector fund thought the portfolios were too complex and the fees too high, "therefore they thought it wasn't worth the trouble", said AIMA Australia chair, Paul Chadwick. But Keith Haydon of FRM questioned any fund's goals in their use of hedge funds. "People are in a bind if they need 7.5 per cent of real alpha," he said. "I don't think it's readily available in a multi-manager portfolio. You need some factor (beta) returns."

### RETAIL HEDGE FUNDS MAY HAVE DIFFERENT RISKS

So-called 'liquid alternatives' may not be the long-term panacea that hedge fund managers are looking for to make asset gathering easier. The rapid growth in retail hedge funds and other alternatives in the US, which may be followed in Australia, carries some unknown risks. Richard Johnston, managing director of Albourne Partners (Asia), said the weight of money may have distorting effects on investment factors. Both Johnston and Simon Mann, managing director of FoF manager K2, said not all the retail funds were "legitimate" hedge funds.

### FAMILY OFFICES REQUIRE PERSISTENCE AND PATIENCE

Managers looking to approach family offices for funding need to be very patient. While family offices can make decisions quickly and have shown an appetite for alternative investments, they need to be comfortable with the managers and confident those managers understand their underlying interests. "Multiple meetings are important. So don't give up on us. We are conservative investors," said Miles Collins, investment director of the Myer Family Office.

### SUPER FUNDS RIDE OUT LOW VOLATILITY

Super funds and their asset consultants are comfortable with the low returns produced by hedge fund managers due to low volatility in major markets over the past two years. "We have maintained a large exposure to macro trading strategies even though they haven't added much value for a year or two," said Bruce Tomlinson, portfolio manager at the $30 billion Sunsuper. "We are persisting because they should add more value in different conditions in the future." Alistair Rew, head of private markets and absolute return solutions for AMP Capital, said: "We don't feel any pressure from our internal clients… We are looking for alpha and if it's not there, we won't invest."

**BELOW** *Michael Gallagher, AIMA Australia*

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## TREND TO RETAIL HEDGE FUNDS PROMPTS ASIC INTEREST

Increased interest in offering hedge fund strategies to the retail market is one of the trends to emerge from an "engagement project" by regulator ASIC. The possible trend has raised some new questions for ASIC to examine.

The project covered a sample of participants, from big investors, managers and other service providers, with discussions taking place between late 2013 and mid-2014.

Ged Fitzpatrick, senior executive leader of Investment Managers and Superannuation at ASIC, revealed some of the results of the project to attendees at the Forum.

Fitzpatrick said the three main trends to emerge from discussions were: the intentions for more retail offerings from managers; a shift in emphasis on marketing hedge funds from returns orientation to delivering diversity and reduced volatility; and a general agreement on improved disclosure to address possible systemic risks and risk management.

The retail trend, which managers reported to ASIC was becoming their preferable route for new investors, has been very strong in the US. This was discussed elsewhere at the conference. ASIC believes it may raise questions as to whether retail investors understand the strategies, including the use of leverage. Similarly, on the marketing emphasis on reduced volatility, Fitzpatrick said that investors needed to be aware that this might introduce new risks.

ASIC would soon undertake its third survey of hedge fund managers, following surveys in 2010 and 2012, to assess whether their strategies posed a potential systemic risk to the financial system. The earlier surveys found it did not. Fitzpatrick urged managers to respond to the questionnaire promptly. Results will be published next year.

Fitzpatrick also told the conference that ASIC had been working to improve the disclosure of fees and costs associated with hedge funds. He said the regulator would soon be consulting the industry to modify the cost disclosure requirements, through an updated ASIC RG 97. "We expect the industry to step up to the plate," he said.

**TOP LEFT** *Ged Fitzpatrick, ASIC* | **ABOVE** *Nikki Bentley, Henry Davis York*

ASIC shared key observations from a recent "engagement project" involving discussions with investors, managers and service providers between late 2013 and mid-2014. They included:

- increased manager intention for retail offerings;
- hedge fund marketing emphasis has shifted from returns to diversification and reduced volatility;
- and agreement on improved disclosure.

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**ABOVE** *Simon Fludgate, Aksia and Richard Johnston, Albourne Partners*
**BELOW** *Sam Mann, K2 Advisors*

# HEDGE FUND FEES REMAIN A CONCERN: ASSET CONSULTANTS

Investment fees remain a significant hurdle for institutional investors weighing up the hedge fund sector, according to a panel of asset consultants speaking at the AIMA Australia Hedge Fund Forum.

JANA senior consultant Georgie Dudley said many managers justify a 2 per cent management and 20 performance fee because it was standard in the industry and they don't want to be seen as "cheap and poor quality" by lowering fees. "It's not really good enough, that type of answer," she said.

She said that while allocations in the past year were up compared to the previous five years, individual super fund directors' fiduciary duties had slowed the process.

K2 Advisors managing director Sam Mann also said there was significant pressure on fees but that some hedge fund managers were more ready to build bespoke solutions for institutional clients.

"What do we need to do with global hedge fund managers to change some of their operating model to adapt to that fee level of the client? And what we're finding is that global hedge funds managers are actually adapting."

Albourne Partners (Asia) managing director Richard Johnston said fees are not such an issue offshore although North American investors are successfully trading off lower fees for a longer lock-up period.

"We are seeing a lot more deals like that but we aren't seeing that much challenging [on fees]."

The panel raised a number of concerns about the rise of liquid alternative investments and other areas of potential risk in the hedge fund universe.

Aksia head of due diligence Simon Fludgate said he remained concerned that some asset classes managed by the hedge fund sector are getting less liquid while valuations may not be truly independent.

"It's no longer about Ponzi schemes... it's more the pricing risk, the delusion risk, that really keeps me up at night and thinking what am I missing?"

## THEY SAID...

### ON FEES

*'Clearly, fees are a lot more sensitive in Australia than elsewhere. In the US we are seeing a lot more trading off of fees for lock-ups.'*
*– Richard Johnston, Albourne Partners.*

*'The general fiduciary responsibility is to challenge the fees being paid. We spend a lot of time discussing it. The question is why is 2 and 20 the correct fee? People say it's because everyone else does it or because it looks cheap if you don't. That is not good enough.'*
*– Georgie Dudley, JANA.*

*'Global hedge fund managers are adapting. We are working more with single managers to build bespoke portfolios… to see what we can get for a certain fee.'*
*– Sam Mann, K2 Advisors.*

*'The first thing overseas investors ask is 'what are your net returns?' The first thing Australian investors ask is 'what are your fees?'*
*– Phil King, Regal Funds Management.*

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# HEDGE FUND OPPORTUNITIES SCARCE: INVESTMENT MANAGERS

The performance of hedge funds is suffering due to a dearth of investment opportunities in the current benign economic conditions, according to a panel of top Australian and global investors.

Future Fund head of debt and alternatives, David George, warned that return expectations need to be reined in. "There's just not a lot of return out there," he said. "If you're going to get 7 or 8 per cent, that's a lot of alpha… odds are you're pickuping up all kind of things that aren't alpha in there and some of those are really interesting things and some of them you don't necessarily want to push to get too."

An anticipated rate rise by the US Federal Reserve next year is expected to increase volatility and increase opportunities for managers.

However, IOOF head of alternatives Hugo Agudo, who runs a $1.5 billion allocation to alternatives, said it was particularly difficult for retail clients who are currently seeing strong returns from equity and bond markets. "Every month I have to justify my existence to stakeholders," he said.

The HFRI Fund Weighted Composite Index posted an annualized 7.79 per cent headline return over the five years ended 2013, compared to the MSCI World Index's 12.54 per cent, according to AIMA. However, hedge funds outperformed over longer time periods and at consistently lower-risk levels.

Alistair Rew, head of private market and absolute return solutions at AMP Capital said the investment firm has educated its clients about the negative impact that the current lack of volatility is having on the sector.

**ABOVE** *Alistair Rew, AMP Capital; Bruce Tomlinson, SunSuper; David George, Future Fund; David Walter, PAAMCO; Hugo Agudo, IOOF.*

## "ALIGNMENT BETWEEN INVESTORS AND HEDGE FUND MANAGERS IS CRUCIAL.

"We could be leveraging up our portfolio, we could be taking a lot more directionality, we could be getting a lot less liquid – we could be doing all the things we are simply not going to do."

Sunsuper portfolio manager Bruce Tomlinson said its hedge fund program was mature but it continued to focus on qualities such as a manager's structure, transparency and communication. "When a manager struggles in business or performance or both, the root cause is often misalignment... that's why we spend so much time on it."

JANA portfolio manager Jehan Sukhla said alignment between investors and hedge fund managers was crucial while AMP Capital's Rew said manager selection, rather than picking promising sectors, had generated most of its alpha.

## THEY SAID...

### ON RETURNS

*'It is a very difficult environment… If we can't find anything we won't put our money to work. We are looking for alpha and if it's not there we won't invest.'*
*– Alistair Rew, AMP Capital.*

*'What keeps me awake at night? My job is to stay awake at night. That's kind of what I do. I haven't slept for 10 years.'*
*– Simon Fludgate, Aksia.*

*'In this environment you don't want benchmark fixed income returns, you want absolute fixed income exposure.'*
*– Susan Buckley, QIC*

*'Smart beta can look like alpha in the near term which can be quite dangerous … it will have a distorting effect on markets over time, creating opportunity for active management.'*
*– Richard Johnston, Albourne Partners*

**ABOVE LEFT** *Jehan Sukhla, JANA*

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**01** *Daniel Conti, Credit Suisse; William Morgan, Shed Enterprises, and Dave Thompson, eVestment*

**02** *Susan Buckley, QIC*

**03** *Peter Warren and Louise Walker, CQS*

**04** *Susan Spencer, Brad Nordstrom and Stuart Gorter, EY*

**05** *Richard Johnston, Albourne Partners*

**06** *Josh Best, KIS Capita;, Kate Misic, Telstra and Brendan Swift, Investor Strategy News*

**07** *John Shin, RF Capital*

**08** *Mark Bennet, CITCO*

**09** *Nikki Bentley, Henry Davis York*

**10** *Craig Balenzeula, QIC*

**11** *Georgie Dudley, JANA*

**12** *Ivan Wheen, Nanuk*

**13** *Simon Fludgate, Aksia*

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**01** *Greg Bright, Investor Strategy News and Damien Hatfield, Ascalon*

**02** *Alistair Rew, AMP Capital; Bruce Tomlinson, SunSuper; David George, Future Fund*

**03** *Peter Warren, CQS; Susan Buckley QIC and Ivan Wheen, Nanuk*

**04** *Michael Gallagher and Paul Chadwick AIMA Australia*

**05** *Daniel Liptack, ZG Advisors and Michelle East, Certainty Compliance*

**06** *Nick Fairfax; Marinya*

**07** *Gerard Satur, MST*

**08** *Miles Collins, Myer Family Office*

**09** *Jason Petras, BT Investment Management; Damien Jaczyk Deutsche Bank and Leslie Andrews, MST*

**10** *Lyndon Catzel, Unity Fund Services; Ben Glover and Simon Bennet, Willis Australia*

**11** *Andrew Wilson, Wolf Capital*

**12** *Keith Haydon, FRM and Paul Chadwick, AIMA Australia*

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## ABOUT AIMA

Founded in 1990, AIMA is the global hedge fund industry organisation that represents hedge fund managers, fund of hedge fund managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors – around the world. The most valued service that AIMA provides to its member firms is making their voice heard by policymakers, regulators and media. AIMA has developed long-standing relationships with key global authorities. With its public affairs work on the ground in Europe, the Americas, the Middle East and Asia-Pacific, AIMA is able to engage in extensive advocacy in the best interests of the global hedge fund industry.

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## DISCLAIMER



## SPEAKERS

*(in order of appearance)*

**PAUL CHADWICK**, Chairman, AIMA Australia

**JOSH BEST**, CIO & Portfolio Manager , KIS Capital

**PHIL KING**, CIO, Regal Funds Management

**MARK NELSON**, Executive Chairman, Caledonia

**GERARD SATUR**, CEO, MST Capital

**IVAN WHEEN**, Managing Director, Nanuk Asset Management

**PETER WARREN**, Senior Portfolio Manager, CQS

**SUSAN BUCKLEY**, Managing Director - Global Fixed Interest, QIC

**CHRISTOPHER JOYE**, Director, YBR Funds Management

**KEITH HAYDON**, CIO, FRM

**NIKKI BENTLEY**, Partner, Henry Davis York

**GED FITZPATRICK**, Senior Executive Leader Investment Managers and Superannuation, ASIC

**MILES COLLINS**, Investment Director, Myer Family Office

**NICK FAIRFAX**, Managing Director, Marinya

**ANDREW WILSON**, Managing Director, Wolf Capital

**JOHN SHIN**, Portfolio Manager, RF Capital

**ANTONY BLAZEY**, Consultant, Azure Capital

**DAVID GEORGE**, Head of Debt & Alternatives, Future Fund

**BRUCE TOMLINSON**, Portfolio Manager, Sunsuper

**JEHAN SUKHLA**, Portfolio Manager, JANA

**HUGO AGUDO**, Head of Alternatives, IOOF

**DAVID WALTER**, Director, PAAMCO

**ALISTAIR REW**, Head of Private Market & Absolute Return Solutions, AMP Capital

**DANIEL LIPTAK**, CEO, ZG Advisors

**RICHARD JOHNSTON**, Managing Director, Albourne Partners (Asia) Limited

**MICHAEL SOMMERS**, Frontier Investment Consulting

**GEORGIE DUDLEY**, Senior Consultant, JANA

**SAM MANN**, Managing Director, K2 Advisors

**SIMON FLUDGATE**, Head of Due Diligence, Aksia

**CRAIG BALENZUELA**, Director, Client & Consultant Relationships, QIC