

FTfm – Global alternatives survey

Money returns as industry rights itself

Hedge funds

After a struggle, funds of hedge funds justify their existence, writes Sam Jones

The fund of hedge funds industry has struggled to justify itself since 2008. As many managers have discovered, simply to provide access – acting as expensive diversifiers for those looking to invest in hedge funds – is no longer enough in the post-crisis and post-Madoff world.

“It has been a stressful time for funds of funds since 2008. There has been more appetite for sophisticated investors in particular to access hedge funds directly,” says Craig Stevenson, a fund of funds investment consultant at Towers Watson.

Indeed, a whole raft of big names have dropped down the rankings of Towers Watson’s latest annual global alternatives survey.

Union Bancaire Privée was once the world’s largest investor in hedge funds. Thanks to ill-judged investments with a feeder fund into the Madoff fraud, however, the bank saw assets plunge and clients pulled out their investments.

UBP’s fund of hedge funds business currently manages \$12.5bn, according to Towers Watson, of which just \$1bn is from pension funds. Man Group’s fund of hedge funds business has

also suffered over the course of the past year, according to the survey. Its total assets under management dropped from \$20.7bn to \$14bn.

As a whole though, there is every sign that the industry has, in 2010, righted itself and begun to identify exactly why it deserves to exist. The money has already started to flow back.

According to Towers Watson, the top 50 managers in 2010 saw pension fund assets under management jump by \$22.3bn, while total assets rose by

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only \$9bn – highlighting the extent to which, for all its failings, the industry remains in significant demand.

Perhaps unsurprisingly, the largest fund of funds – and those best able to articulate how they have emerged from the financial crisis and why they provide a valuable service – have been the biggest beneficiaries of such flows.

The top 10 funds of fund managers look after more than half of the total assets managed by the top 50.

“The access model has really gone away,” says Mr Stevenson. “It’s now about differentiation and an

increased appetite for customisation.”

Demand for bespoke solutions or fund portfolios – particularly from pension clients – has again been a boon for the biggest players, which typically have the resources to meet such demands.

Pension funds, which now account for 41 per cent of the top 50 fund of hedge fund managers’ total assets, expect ever greater depth and breadth of service from their managers.

As well as separate managed accounts, position-level reporting and discounted fees – all of which have been accepted as common practice in the post crisis world – investors are looking for active involvement in investment decision themselves.

Some fund of fund clients expect “knowledge transfer” relationships, according to Mr Stevenson, where information and expertise from the hedge fund industry can help them manage their broader portfolios. In rarer cases, investors have requested seats on fund of fund investment committees and even the power to veto investments in certain underlying managers.

There are still 14 names in the top 50 managing less than \$3bn – the size many estimate is now the smallest for a viable fund of hedge funds business.

“The big will certainly get bigger over the next year,” says Mr Stevenson. “And for smaller managers, there’s more consolidation yet to come.”



Bernard Madoff heads to court in 2009. Hedge funds suffered after the biggest fraud in Wall Street history
New York Times

Top 50 fund of hedge fund managers of pension fund assets

Management group	Main country of domicile	Pension AUM (\$m)		% change	Total 2010 AUM (\$m)	Pension AUM (as a % of total)
		2010	2009			
Blackstone Alternative Asset Mgmt	US	15,930.0	14,298.0	11.4	32,923.0	48.4
Grosvenor Capital Management	US	12,527.8	11,825.5	5.9	24,045.1	52.1
Mesirow Advanced Strategies	US	8,451.0	7,122.0	18.7	13,659.0	61.9
Legg Mason	US	7,925.0	new	new	21,586.0	36.7
Pacific Alternative Asset Mgmt Company	US	7,187.0	6,882.0	4.4	9,877.0	72.8
Financial Risk Management	UK	5,647.4	5,045.0	11.9	9,277.2	60.9
K2 Advisors.	US	5,574.0	4,585.0	21.6	9,394.0	59.3
EnTrust Capital	US	4,920.0	new	new	5,550.0	88.6
BlackRock	US	4,892.5	5,157.5	-5.1	17,872.7	27.4
Gottex Fund Management	Switzerland	4,841.6	5,070.0	-4.5	8,256.9	58.6
Fauchier Partners	UK	4,440.5	3,072.9	44.5	7,857.8	56.5
Goldman Sachs Asset Management	US	4,419.5	3,985.4	10.9	20,842.3	21.2
Arden Asset Management	US	3,650.0	3,710.0	-1.6	7,300.0	50.0
JP Morgan Alternative Asset Mgmt	US	3,443.7	2,631.0	30.9	8,523.5	40.4
Aurora Investment Management	US	3,167.0	2,919.0	8.5	10,468.0	30.3
Morgan Stanley	US	3,012.1	3,918.0	-23.1	9,595.7	31.4
Crestline Investors	US	2,905.0	new	new	4,050.0	71.7
Man Group	UK	2,861.0	2,651.0	7.9	14,000.0	20.4
Attalus Capital	US	2,768.1	new	new	2,875.9	96.3
Harcourt Investment Consulting	Switzerland	2,715.0	3,093.0	-12.2	4,186.0	64.9
Mariner Investment Group	US	2,500.0	new	new	2,500.0	100.0
Lyxor Asset Management	France	2,323.2	1,500.0	54.9	16,133.0	14.4
Prisma Capital Partners	US	2,153.9	1,396.0	54.3	5,345.1	40.3
EIM	Switzerland	2,016.3	2,563.0	-21.3	7,500.0	26.9
Investcorp	US	1,905.0	new	new	3,581.0	53.2
NewFinance Capital	UK	1,880.4	1,400.0	34.3	3,459.8	54.3
Silver Creek Capital Management	US	1,822.7	2,043.3	-10.8	6,789.2	26.8
Diversified Global Asset Management	Canada	1,646.9	2,109.6	-21.9	1,812.5	90.9
Benchmark Plus Management	US	1,611.0	1,513.0	6.5	1,708.0	94.3
Hermes BPK Partners	UK	1,592.1	1,573.4	1.2	1,609.6	98.9
Unigestion	Switzerland	1,512.6	1,326.7	14.0	3,609.0	41.9
LGT Capital Partners	Switzerland	1,436.0	900.0	59.6	4,700.0	30.6
ABS Investment Management	US	1,392.0	new	new	3,410.0	40.8
Liongate Capital Management	UK	1,350.0	new	new	3,100.0	43.5
Amundi Alternative Investments	France	1,217.8	1,142.0	6.6	10,061.8	12.1
Neuberger Berman	US	1,201.0	1,162.2	3.3	3,736.0	32.1
Protégé Partners	US	1,140.0	1,115.0	2.2	2,942.5	38.7
Magnitude Capital	Cayman Islands	1,119.0	1,189.0	-5.9	2,151.0	52.0
Dexia Asset Management	Luxembourg	1,093.4	490.0	123.1	1,093.4	100.0
Corbin Capital Partners	US	1,065.5	566.2	88.2	2,619.1	40.7
Union Bancaire Privée	Switzerland	1,050.0	new	new	12,500.0	8.4
Stenham Asset Management	Guernsey	997.4	663.3	50.4	3,465.0	28.8
Private Advisors	US	919.5	738.4	24.5	2,721.2	33.8
Cadogan Management	US	746.3	628.0	18.8	2,340.0	31.9
Optima Fund Management	US	555.0	651.0	-14.7	2,433.0	22.8
Gems Advisors	UK	470.0	new	new	2,200.0	21.4
Robeco-Sage	US	456.2	23.0	1883.5	1,335.0	34.2
Axa IM Paris	France	432.0	396.7	8.9	5,706.6	7.6
MMI Holdings	South Africa	400.0	350.0	14.3	450.0	88.9
Lazard Asset Management	US	360.4	new	new	360.4	100.0
TOTAL		149,643.5			363,512.2	41.2

Source: Towers Watson

Top 20 commodities fund managers of pension fund assets

Management group	Main country of domicile	Pension AUM (\$m)		% change	Total 2010 AUM (\$m)	Pension AUM (as a % of total)
		2010	2009			
Pimco	US	11,077.4	8,536.0	29.8	25,732.7	43.0
BlackRock	US	5,776.0	946.2	510.4	83,149.0	6.9
Gresham Investment Management	US	5,488.0	4,079.0	34.5	11,780.0	46.6
Schroder	UK	4,709.1	3,437.0	37.0	11,109.3	42.4
Diapason Commodities Management	Switzerland	2,780.0	2,283.0	21.8	4,300.0	64.7
Wellington Management	US	2,149.0	662.0	224.6	6,252.0	34.4
Hermes Fund Managers	UK	2,025.3	1,863.3	8.7	2,065.3	98.1
Neuberger Berman	US	2,013.0	1,499.9	34.2	3,064.0	65.7
Investec Asset Management	UK	1,601.5	1,085.0	47.6	6,570.8	24.4
BNP Paribas Investment Partners	France	1,568.5	110.0	1325.9	4,027.2	38.9
Tiberius Asset Management	Switzerland	1,100.0	new	new	1,900.0	57.9
Goldman Sachs Asset Management	US	1,010.0	1,827.3	-44.7	4,015.6	25.2
Credit Suisse Asset Management	US	660.0	new	new	8,017.7	8.2
Bache Commodities	UK	528.0	701.7	-24.8	552.8	95.5
QIC	Australia	418.2	347.1	20.5	445.6	93.9
GE Asset Management	US	391.5	new	new	391.5	100.0
Lombard Odier Investment Managers	Luxembourg	299.0	201.9	48.1	485.3	61.6
Jefferies Asset Management	US	270.0	new	new	1,117.0	24.2
Unigestion	Switzerland	248.4	249.1	-0.3	577.3	43.0
GL Funds	Switzerland	146.0	new	new	235.9	61.9
TOTAL		44259.0			175789.0	25.2

Source: Towers Watson