GREAT EXPECTATIONS

When BDO and *HFMWeek* held a joint cocktail evening, the key topics discussed were the UK economy, regulation, investor sentiment and what's the collective noun for a group of hedge fund professionals?

BY NEIL GRIGGS AND MICHELLE CAROLL

What is the collective noun for a gathering of hedge fund industry experts? Given the debate on a name that *Financial Times* correspondent James Mackintosh excited last year – including 'covert', 'topiary' and even 'murder' – the consensus from those gathered at our cocktail party with *HFMWeek* is that there is an 'expectation' of hedge funds.

More than 150 people from the industry – clients, non-clients, and friends – gathered to debate, gossip, and network. Conversations varied but three themes dominated: general UK economic conditions, regulatory issues and current investment sentiment.

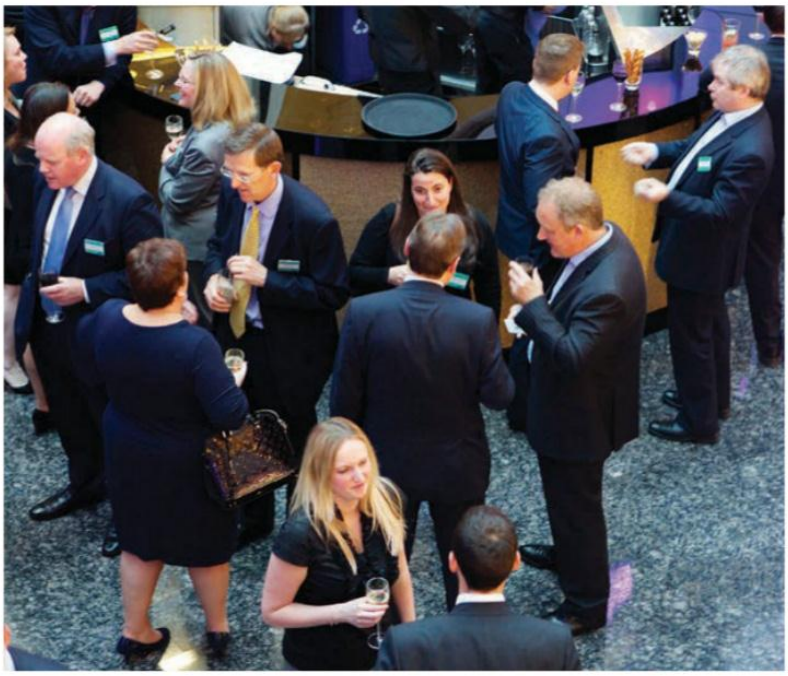
To summarise the first topic politely, there is a sense that the economic malaise won't abate. There is a view that politics is dictating strategy, with disquiet at UK political management linked to the EU's role and the variety of directives demanding attention.

Unsurprisingly, AIFMD was never far from people's minds, although Ucits V is more acute. Will things move this month? What will the FCA determine from their survey? Will remuneration rules have the opposite effect on risk-taking? In another nod to UK politics, the implementation of Ucits V – expected late 2014/early 2015 – will coincide with the pre-election season, potentially suffering delays.

With Ucits VI on the horizon, many asked whether the EU tidal wave will ever wane. *HFMWeek*, our co-collaborator for the evening, fears not, citing the EU FTT as another example of politicians seeking remedies that cause cost and confusion across the sector.

Investor sentiment is mixed, with investment and capital-raising challenges, but the US and especially Asia showing promise. Returns are healthy across most strategies.

Returning to the collective noun, there is an expectation of better business this year, EU rules notwithstanding. We look forward to being of service. ■



START-UPS

Hedge fund start-ups were among the hot topics discussed. Market and regulatory challenges faced by established managers are magnified for new funds, who also face many operational hurdles.

Fledgling managers need to look beyond their investment strategy and consider the additional components which make a fund successful, argues Jonathan Willis of hedge fund business development firm Willis Venture Partners: "In today's post-crisis world, one of the main reasons that people can't grow is because they do not understand the client perspective."

Nigel Brooks of Capital Support, Derek McKechnie of Fidelius and Mike Clyne of FeMan Consulting Limited, all members of financial services networking and referral group FIDES alongside Willis, agree. Providing technology, insurance or HR services respectively, they emphasise the importance of planning ahead and choosing the right partners, who can make or break a reputation.

Attitude, management expertise and cost are among the main things which can prevent a start-up from succeeding.

"A new start-up has to work so much harder, needing not just a great track record from a bank or institution, but also a slightly different angle that is going to interest potential investors," adds Brooks.

All agree that opportunities for start-ups abound, but that it requires hard work, infrastructural excellence and keen market-reading ability.

REGULATION

While perhaps unsurprising, regulatory issues found their way into conversation throughout the evening; event organisers had even toyed with the idea of naming the cocktails after key industry legislation. And although cropping up on occasion, talk of the Alternative Investment Fund Managers Directive (AIFMD) actually took a back seat.

Speaking to attendees from across the hedge fund industry, *HFMWeek* found a degree of uncertainty about the impact of new regulatory requirements.

According to James George, a partner at BDO in the Cayman Islands, as a result of the Dodd-Frank Act and Fatca some organisations had "initially made the decision that it was not worth marketing to investors in the US given the potentially substantial implementation and compliance costs".

"However, simply avoiding direct contact with US persons or companies does not mean you won't have a need to comply with US regulations. The requirements are quite broad and contain unexpected hazards so organisations should analyse the rules carefully in order to identify potential compliance issues, whether or not they directly deal with US entities," he added.

There was concern from Vitaly Nechaev, of technology firm DataArt, who questioned whether the industry was taking the necessary steps to deal with regulatory burdens from a systems implementation perspective.

"Surprisingly, we estimate that about half of the market players are not proactive enough and have barely begun to address the new regulatory hassle," Nechaev said. "They had better be nimble in formulating their strategy, given the tight deadlines."

INVESTOR TRENDS

Talk of investor trends and their favoured strategies also proved to be popular, particularly after a cocktail or two. With a guest list representing many sizes and types of hedge fund firms, the take on what looks promising varied.

Alex Gaitan, a fund of hedge funds portfolio manager at asset management firm Frontier Investment Management, says that the feeling among investors is that the market is "a bit toppish".

"Fixed income, equities, merger-arbitrage, event-driven strategies can be balanced by allocating to a few macro managers," he says.

James Tilney, an analyst of futures trading company Glider Trading, agrees. He adds that "historically, with increasing volatility in the markets, investors gravitate towards directional strategies, such as global macro and CTAs, whilst reducing allocations to arbitrage-backed strategies, such as statistical and fixed income arbitrage."

Gaitan adds that given investor discontent with the fee structure of many funds of funds; managers must increasingly think on their feet and select interesting angles – such as alternative beta strategies or emerging managers – from which to approach investments.

"We should focus a lot more on performance and investment solutions, rather than just cutting the fees."

Having a unique and successful strategy is getting harder, but one thing remains constant: investors want alpha.