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# Investor Guide to Emerging Managers Forum Middle East

Possibility.



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# About the Emerging Managers Forum Middle East 2013

One of the key findings of our research with the GCC network of institutional investors, SWFs and family offices was a desire to meet more top performing managers and increase allocations into sub-\$500 funds.

In response we have brought together 11 of the finest performing small funds from around the globe to present niche, market-beating, alpha-generating, portfolio-diversifying strategies to you.

They will make their case on Sunday 3<sup>rd</sup> March 2013. All funds have transparent structures, independent service providers, proven track records and unbiased advice. You can contact all managers prior to the event and we will share any factsheets and other documents required to ensure that your attendance is worthwhile.



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# The Emerging Managers and Funds...



A pure alpha multistrategy fund

1. The best of Pictet Asset Management - 10 to 15 strategies across asset classes
2. Market neutral - a diversified portfolio that is uncorrelated with mainstream asset classes (no risk premia, pure alpha)
3. Our philosophy - liquid and transparent



Financial LAB claim is: 'It's All About Asset Allocation'. Performance depends on the discipline and flexibility of investments so our Funds & Portfolios are based on Dynamic Asset Allocation.



Aurium is a fully independent alternative investment manager with specialisation in Equity Finance and London Prime Real Estate. Aurium has successfully managed institutional and private investors' money.



An independent, privately held firm founded in 1998, Forward is the advisor to the Forward Funds. As of September 2012, we manage \$5.7 billion in a diverse product set offered to individual investors, financial advisors and institutions.



Corto (L/S Equity): capturing long/short opportunities in Europe

1. Our philosophy: be open minded - identify and understand change
2. Our process: relate those change to corporate value creation/destruction
3. Our portfolio: our best bottom-up ideas within a disciplined exposure management framework



A specialist Emerging Market and Frontier Market equities Hedge Fund that seeks to generate superior absolute and relative returns by identifying and investing in select Emerging and Frontier markets that are entering transformational periods, while hedging out both specific and general market risks.



Doyle Fund Management is the sponsor and trading manager of The Masters Fund Ltd., an offshore macro focused Fund of Funds. The firm manages over \$300 million of assets from mostly institutional clients and is located in New York



Marinus Opportunities Fund is a structured credit fund with low leverage and short duration holdings. The team utilizes fundamental credit analysis to construct and manage a portfolio of securitized mortgages and ABS holdings.

# The Emerging Managers and Funds...



RD Legal Capital employs a primary strategy of factoring legal fee receivables associated with settled litigation. The firm focuses on contingency legal fee cases of US based law firms in which there is a post-settlement payment delay.



Tiber Capital is a London based FSA-regulated investment manager focused on short term systematic trading. TC provides investors with diversification by trading very liquid exchange listed futures markets using multiple trading strategies.

# The Seeder...



Since 2009, IMQubator ("IMQ") has led the way in developing a new generation of alternative investment managers. IMQ is a business predicated on taking an end-investor perspective – the first hedge fund investment platform with this approach on all aspects of the investment process.

# Pictet Alphanatics Fund (Market neutral multi-strategy)



## **Explain and make the case for your strategy, what is different about it?**

The Alphanatics Fund is a market neutral multi-strategy hedge fund that aims to deliver pure alpha from investments in the best active managers within Pictet Asset Management.

The fund's Investment Committee allocates capital to selected internal investment teams, to manage through a long-short approach.

The fund has the flexibility to allocate capital to the strategies best able to capture market opportunities as they arise – a key strength of our model is the proximity of the Investment Committee to the investment teams.

Selected strategies are independent from each other and provide diversification, allowing managers to focus on high-conviction bets. Only liquid instruments are used, primarily across equities and fixed income

## **What key macro trends will underpin your strategy in 2013?**

In 2013, idiosyncratic factors should play a larger role in performance as concerns about systemic risk abate – favouring a fundamentally-driven approach.

Moreover, the current low-growth low-interest rate environment, coupled with persisting high uncertainty, presents a challenge for investors seeking returns with moderate risk. Such an environment enhances the appeal of a market neutral strategy able to generate attractive risk-adjusted return regardless of directional swings.

## **How is your strategy less correlated to the broader market?**

We pursue a market neutral strategy (underlying segments are given beta / duration limits) that seeks to generate returns independently of market movements. We allocate capital to our managers on the basis of their ability to generate a skilled-based alpha, and favour teams that generate ideas independently from others. In addition, the overall beta of the fund is kept within a tight range.

## **Discuss the pros and cons for investing into smaller funds/niche strategies for investors?**

Research has shown that smaller funds outperform their bigger peers over the long-term, notably because they can be more nimble. Investors' concerns tend to revolve around operational risk, and the fear that smaller hedge funds may not offer a strong operational set up. At Pictet Asset Management, we are able to offer the best of both worlds. Our funds are small and nimble enough to capture market opportunities, but can also rely on from Pictet Asset Management's scale and solid operational infrastructure.

## **How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

The fund offers monthly liquidity with 20 days notice and no lock-up.

The philosophy of the strategy is to focus on liquid instruments with a conservative use of leverage. Since its inception in 2004, the strategy has never had any liquidity issue - even in the midst of the 2008 financial crisis.

As the fund invests only with internal teams, the investment committee gets full transparency, allowing quick decisions to be taken.

We are also ready to provide our investors with the full portfolio if needed.

# Aurium Capital (Real Estate Strategy)



## Explain and make the case for your strategy, what is different about it?

We manage a value-add real estate strategy focused on prime London residential properties (Mayfair, Knightsbridge, Kensington, Belgravia, Notting Hill, Chelsea and Holland Park). The Aurium Real Estate London Ultra-Prime Fund is different in that at its core it targets individual units across London's "golden postcodes".

Our core team has been executing this strategy for almost 10 years with their own capital, giving us the expertise in local micro-markets and excellent relationships with the relevant parties. The ARELUPF is able to exploit institutional pricing within a retail market, repositioning assets for sale to buyers who do not have the appetite to refurbish properties themselves.

## What key macro trends will underpin your strategy in 2013?

There are four macro trends which

are likely to influence the strategy through 2013.

- 1) Credit constraints as banks repair balance sheets
- 2) Emergence of increased inflation outside commodities markets
- 3) Political and economic instability in developed and developing economies alike
- 4) Increasing population of UHNWs, particularly from emerging economies

While the first three may appear negative in absolute terms, each can have (and historically has had) a positive impact on either the Fund's performance and/or prime London residential property prices.

ARELUPF see inflation and rising interest rates as likely being coincident. Ignoring the fact that rising interest rates is likely to indicate general economic health in the developed economies, with the an increase in inflation at this time given the amount of liquidity the economic system has had to absorb thus a broadening of demand for ARELUPF's finished product it. Historically, physical assets such as property have performed well in this scenario. At the very least this gives us a timing advantage.

London has always held particular attraction to the world's global affluent, and been a safe haven for parties looking to store wealth

As governments in the developed world look to their wealthiest residents to contribute more, London has offered an attractive opportunity to deploy capital. London's lifestyle, amenability to foreign investment, cultural benefits, educational institutions and proximity to Europe have all provided a strong attraction to the world's affluent. A London property ranks highly on UHNW's list of acquisitions. As the population of UHNWs in emerging economies increases at a far greater rate than the increase in supply of prime London property this is expected to have a positive effect on exit prices.

## How is your strategy less correlated to the broader market?

By virtue of the above points, investing in London property is able to offer significant risk/return advantages compared to the broader market. First, the market is more liquid than other Private Equity funds that would target the same IRR levels – this allows for prices to remain more stable than the broader market, as can be evidenced in the Fund's track

record. Second, coincident indicators such as rising/falling interest rates mean that property prices become less/more affordable, providing inherent mitigation against general market movements while still allowing for significant pick-up through the value-add process. Of course, by timing project lengths to be roughly similar to those of economic cycles this would also allow for significant alpha-generation.

## Discuss the pros and cons for investing into smaller funds/niche strategies for investors?

Niche strategies offer investors an increased chance of real alpha-generation rather than market exposure. Obviously funds should be sized to match their investment opportunities – London property is not the US Treasury market. There are obviously pros and cons with regard to smaller funds ... such as the added agility in terms of property entry/exit versus the need to secure institutional funding and benefit from economies of scale from suppliers. London's overall residential property market would not be able to absorb very significant investment if this was to be focused on individual units, even

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more true of the prime London market. For investors, smaller funds ensure that only the best ideas are executed as they do not have “excess” capital to deploy. The trade-off can be increased key-man risk and reduced infrastructure, but this is less of an issue for real-estate funds.

**How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

Key to the Fund’s investment process is the use of an independent Advisory Board as well as a Board of Directors (at Fund level) that is not afforded any direct carry in the Fund (although they may invest). The Advisory Board is able to address not just the questions of whether a particular deal makes sense but can also provide a macro-perspective on overall pricing levels and the supply pipeline. Beyond this, projects are managed on an open-book basis so that project costs are closely monitored not just by the Fund’s Board but also by lenders who will usually insist that their own Project Monitors vet each scheme.

# Aurium Capital (Absolute Return Strategy)



## Explain and make the case for your strategy, what is different about it?

As a family office, we primarily search for capital preservation, diversification and un-correlation. In the recent years, Equity markets have underperformed and are very volatile with no clear direction. Bonds should be inserted with caution in an asset allocation given the political turmoil in particular in Europe.

Traditional Hedge Fund strategies most often proved not as resistant to crisis as expected and disappointed in their ability to deliver real alpha.

We believe that there is significant upside from investing in strategies that are de-correlated to the Equity Markets and therefore can continuously offer positive absolute returns. Hence we focus on three main strategies:

- Ultra Prime Real Estate: it is a segment where there is a structural imbalance between offer and demand. We add value by sourcing first class properties in Mayfair and Knightsbridge and then

developing them to the highest standards.

- Corporate Actions Arbitrage: although the underlying markets are equities, we are fully market neutral and the value add is derived from capturing imbalances between physical and derivatives markets.
- Credit: The non-investment grade corporate credit loans offer significant value primarily in Europe because of discounted purchase prices resulting from a dislocation in the price of European leverage finance assets.

## What are the key macro trends underpinning your strategy in 2013?

Our strategies are influenced by the following five macro trends:

- Uncertainty in the Equity Markets
- The Eurozone problems are not resolved
- Growth of the ultra-wealthy community, in particular from emerging economies
- Global deleveraging of banks forces many European banks to sell assets
- Pressure from Private Equity firms to invest the "dry powder"

## How is your strategy less correlated to the broader market?

Our strategies are less or not correlated for the following

reasons:

- Ultra Prime Real Estate: Mayfair and Knightsbridge have structural dynamics of their own, i.e. very limited supply due to building restrictions while at the same time continuous demand from
- Ultra wealthy international buyers
- Corporate Actions Arbitrage: is completely market neutral and there is absolutely no correlation to the underlying Equities
- Credit: deal origination as well as team expertise coupled with the capacity of "holding to maturity" makes the investments less dependent on market fluctuations

## Discuss the pros and cons for investing into smaller funds/niche strategies for investors.

Pros:

- Less crowded strategies: less competition and larger alpha to capture
- Professional teams that are aligned with investors interest and less focused on management fees of large AUMs
- Attractive returns: two digits returns per annum

Cons:

- Niche or novel strategies are less known to investors: educational learning curve can in some

instances be required

- Due diligence can take longer and require more diligence

## How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?

We are able to provide our investors with complete transparency on all of our investments:

- Ultra Prime Real Estate: we report individual project IRRs, properties can be viewed at any stage.
- Corporate Actions Arbitrage and Credit: we report all trades to investors on a regular basis

We believe that a certain tie up period of investor's capital allows us to carry our strategies to completion and maximize returns for investors.

However we understand the increasing demand for higher liquidity. Therefore, our Private Equity strategies have "synthetic income" which is generated from the cash flow i.e. Real Estate exits or from Credit coupons.

Our Corporate Actions strategy is normally a one year strategy but we can offer it with increasing liquidity.



# Pictet Corto Fund (European Equities, Long/Short)



## Explain and make the case for your strategy, what is different about it?

Corto is a European long/short equity strategy with a bias towards mid-cap companies. Since launch, Corto has generated returns from both its long and short book leading to better risk-adjusted returns when compared to European equities. It has also limited capital losses in bear markets. Its strategy earned it the prestigious EuroHedge Award for best European equity fund under USD500m in 2012.

Fundamental stock-picking is at the core of the fund. We focus on the identification and understanding of change (economic, socio-cultural, sector, corporate) and how changes relate to corporate value creation or destruction. We therefore pay a lot of attention to a company's use of capital in relation to market opportunities and its return on capital (ROCE).

A concentrated portfolio represents our highest-conviction ideas; dynamic hedging of market exposure, through put options and delta-one derivatives, allows

managers to alter the portfolio's sensitivity to the broader market without changing core stock investments.

## How is your strategy less correlated to the broader market?

Corto's correlation to the European market has historically averaged 0.40. However, we do not manage our portfolio with a correlation target in mind but aim to provide better risk-adjusted returns than the market. Since the launch of the Offshore Fund in 2006, the fund's annual return has outpaced that of the European market with roughly one third of the market's volatility.

## Discuss the pro's and con's for investing into smaller funds/niche strategies for investors?

Our strategy can extract alpha within the mid-cap European universe - a space which offers a broad palette of investment opportunities and is not accessible to larger funds.

Investing in smaller funds can concern investors, however being a small hedge fund operating within Pictet Asset Management has the advantage of being independent yet benefit from the resources and infrastructure of a large asset manager.

## What key macro trends will underpin your strategy in 2013?

Three key trends have improved the environment for our strategy: the dissipation of default risk, the decrease in stock correlation and the attractive valuation of European equities relative to history - especially within the smaller cap space. The above makes Europe an exciting region for bottom-up stock-pickers.

- Entering 2013, our flexible strategy will remain an asset - we feel that our core stock picking expertise within the vast universe of European corporates, combined with the use of dynamic hedge through derivatives, should allow us to navigate 2013 irrespective of the macro scenario.

## How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?

Investing in the mid-cap space does not necessarily equal lack of liquidity. Our portfolio is actually very liquid: typically 80% of our long book can be liquidated within 1 day, and more than 90% for our short book (assuming 20% of the last 90-day's average trading volume). Transparency is key: from the outset of the due diligence

process, Corto's prospects have full strategy, operational, and risk transparency.

# Doyle Fund Management (Global Macro)



## **Explain and make a case for your strategy, what is different about it?**

Our strategy is liquid global macro. Global macro managers can profit from long or short exposure in equity, debt, currency and commodity markets. Macro managers enjoy a far greater opportunity set than funds that are constrained by asset class or region. What makes the Masters Fund different is the concentrated (less than 10 managers) exposure we offer to the premier macro funds in the business.

Many large macro Fund of funds offer a diversified mix of 30-40 different funds. We believe there are less than 20 premier macro firms in the business today. The core holding of the Masters Fund (since 1994) is the Tudor BVI Global Fund.

## **What key macro trends will underpin your strategy in 2013?**

We expect the US and global economic recovery will be the key macro driver in 2013. Global

growth will impact various regions to different degrees. As risk assets appreciate there will be a shift away from low yielding fixed income instruments. This rotation will create excellent opportunities for macro traders. We believe there is more to go for the Japanese deflation trade. Continued growth in Latin American and Asia should also offer macro managers excellent opportunities in non-G7 currency and debt markets.

## **How is your strategy less correlated to the broader market?**

Global macro managers have an open mandate to trade anywhere, using long/short strategies in liquid currency, debt, equity and commodity markets. They practice active trading strategies in all geographic regions.

Macro managers have historically participated in "broader market" moves, however, what makes macro strategies so appealing (and less correlated) is their ability to trade from the short side and also profit from trends in fixed income, foreign exchange and commodity markets.

## **Discuss the pros and cons for investing into smaller funds/niche strategies for investors?**

Pros:

- Niche strategies can offer non-correlated alpha to traditional portfolios.
- Most niche strategies provide more focused, concentrated investment opportunities.
- Smaller funds and niche strategies can offer a high degree of specialization and access that larger, more diversified products lack.
- Smaller niche strategy Fund of Funds can out-perform because they are not over-subscribed and thus forced to dilute and pollute their optimal manager mix with second-tier funds.

Cons:

- Capacity in top-tier niche strategies can be limited.
- Niche strategies can have risk and liquidity features that are hard to understand and be unsuitable for certain types of investors.
- Niche strategies tend to demand specialized knowledge and expertise from managers.

## **How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

Our liquid multi-manager product offers a high degree of transparency and quarterly liquidity with no lock-ups, holding periods, front-end costs or

redemption fees. Performance updates are provided weekly. Investors also receive monthly reports detailing allocations, attributions and individual manager performance.

There are different types of "alternative" funds and many have under-performed in recent years. There are too few top-tier alternative asset managers and there are even fewer first-class global macro traders. The Masters Fund currently offers seven of the best macro funds in the business today.

# fLAB Luxembourg (Asset Allocation)



## Explain and make the case for your strategy, what is different about it?

We believe alpha is a very nice word, which everybody talks about, but only a few have ever seen. To be honest, we have to say that we only find alpha in a good asset allocation. In fact, our main objective is to provide our clients with a very understandable model based just in 2 dynamic, transparent and robust portfolios (our fLAB funds)

fLAB Core, is a strategically guided asset allocation to bonds, stocks and cash, with an impressive real track record. We are not market timers, not opportunistic, not stock pickers. We don't fight the trend, we don't fight the FED. We are just disciplined and flexible.

fLAB Satellite, through a more tactical asset allocation aims to produce a positive return over time. Exposure to a fixed income portfolio + a dynamic overlay composed by other uncorrelated assets (commodities, currencies, credit markets) gives us an Absolute Return pattern.

The strategy based in these 2 pillars, finally has to be absolutely transparent, and the custodian, one of the safest banks in the world, the Bank owned by the State of Luxembourg (AAA)

## What key macro trends will underpin your strategy in 2013?

Is very funny how people always repeat 2 topics....`This past year has been very difficult`.....or `There will be changes in the second half` of this year` ..

In our dynamic asset allocation funds we have to be prepared to any macro trend. Our Core model has proved to be efficient in all types of economic situations in the past: Expansions or recessions, FED tightening or loosening cycles, Crude Oil and USD uptrends or downtrends.

That being said, this year we should adapt to a moderate growth and steady inflation situation. With investors anticipating improvement in global economic conditions, this year we could face typical fast corrections due to excessive optimism.

## How is your strategy less correlated to the broader market?

The key for non-correlated returns

is to be able to find investments to add in the portfolio, which could act as contra cyclical investments. We have to be careful about excessive pessimism or optimism and beware of crowds at extremes, whether they sell or buy...That's what we want to do in fLAB Satellite, trying to be Kipling oriented : If you can meet with triumph and disaster and treat those two imposters just the same...

## Discuss the pro's and con's for investing into smaller funds/niche strategies for investors?

Being small or big is not a guarantee of anything. You can find excellent and horrible funds in each of these fund types. In our opinion the Asset Management Business is evolving to a different scenario, where in some years time, the low fee Beta Business (ETFs, delta 1 products, index products) will be predominant, and then you will also find high fee alternative funds (hedge funds, niche funds and non-benchmarked products). fLAB idea is to become a creative and cutting edge player in Dynamic Asset Allocation using cheap Delta 1 products for our Core Fund but being able to add an overlay of non correlated alternative investments in our Satellite Fund.

At this point, the size is not as important as the liquidity and credit quality of the investment.

## How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?

When we first thought in the products we wanted to manage, we had 4 previous questions:

- 1) What type of products we admire? Robust, transparent, successful flexible asset allocation funds
- 2) Which are some of the most admired funds in the world? Carmignac Patrimoine , BlackRock Global Allocation , Carmignac Securite, Julius Baer Absolute Return
- 3) Which type of custodian you rely on? Only most highly rated financial institutions in the world.
- 4) How would you avoid black boxes? Only investing in products with daily NAV and absolutely transparent

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These have been our answers for these 4 questions:

- 1) fLAB Core, strategically guided asset allocation & fLAB Satellite, tactical asset allocation.
- 2) Since inception (3,5 years) we have outperformed our 4 most admired products.
- 3) we have placed our funds in one of the top 10 safest banks in the world : the BCEE, Aa1/AA+ State Owned Bank in Luxembourg.
- 4) We avoid black boxes with daily NAV, no subscription/redemption fees and free & daily access to the whole portfolio.

# Forward Endurance Fund (US Real Estate)



## Explain and make the case for your strategy, what is different about it?

Forward Endurance Fund LP is a thematic long/short equity hedge fund. Our bottom-up investment process is driven by consistent, time-tested equity research methods focused on large thematic Total Addressable Markets (TAMs).

The fund's management team seeks to capitalize on changes to these markets; both the new, rapid growth markets and older, disrupted markets. Long and short equity positions are identified and the investment portfolio is constructed based upon price and stop-loss risk management targets.

## What key macro trends will underpin your strategy in 2013?

Forward Endurance team is San Francisco, California based but seeks to be macro-informed on all issues, globally. The key macro trends that will influence our strategy this year:

Our U.S outlook, which is shaped

by muted U.S. GDP growth in the 2-2.5% range, accommodative monetary policy and an eventual legislative compromise on fiscal debt

- China's new 5-year plan led by Premier Hu Jintao, which is more about its own domestic consumption rather than capital investment
- Europe's fiscal austerity will create opportunities and stress new capital investments
- Awareness of global inflationary pressures building for both wages and select services, like healthcare

## How your strategy is less correlated to the broader market?

The fund selectively invests in venture-backed, entrepreneurial IPOs, and has the authorization to invest in private companies. Our sector selection is dominated by technology, thus narrower than the broader market. Investments outside of the information technology sector are characterized by "tech-enabling changes" in infrastructure and other services.

## Discuss the pros and cons for investing into smaller funds/niche strategies for investors?

Small, niche funds can offer a

more focused strategy with a high level of attention but do face start-up risks. However, Endurance LP offers the focused attention of an emerging manager coupled with the infrastructure in place to support a growing client base, due to its placement on Forward Management's \$5.7 billion investment platform.

## How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?

The Forward Endurance team prides itself on transparency, communicating with investors and prospects on a regular basis. The team publishes a fund newsletter that is distributed to clients and interested parties monthly.

Forward Endurance also sets parameters for minimizing the liquidity risk of its investment positions. We are mindful of maintaining sufficient levels of liquidity to meet cash needs.

Changes in capital market conditions: trading volumes, bid-ask market price sizes and crowdedness, and concentration of equities can adversely impact both long and short equity positions.

These parameters are:

- Minimum market capitalization of long / shorts: \$100 mm
- Minimum average daily public trading volume: no more than 10% of average daily trading volume
- Minimum stock float: 10 million shares
- Private stock: maximum 15% of total assets under management for Forward Endurance LP
- Private stock ownership on more than 10% of companies total fully diluted shares
- We trade in liquid securities. To date, we have not invested in private non-liquid securities.

# KDGF Asset Management (Global Emerging Markets)



## Explain and make the case for your strategy, what is different about it?

Global Emerging Markets Long/Short Equity. The defining characteristic of Emerging Markets is that their financial systems tend to be relatively immature and shallow, and are therefore highly sensitive to capital flows and credit cycles. This means that EM capital markets are susceptible to booms and busts, and this often presents opportunities to generate strong returns in both bull and bear markets. The best opportunities also rotate across markets, and this favors a Global approach, rather than a single country or regional approach. The KDGF investment strategy takes advantage of these dynamics and has 3 components:

- Concentrate LONG positions in the handful of Emerging and Frontier markets and companies in the best position to re-rate in the short to medium term. Positions tend to be concentrated in the 6 to 8 markets with the best reward/risk profiles.

- Selectively SHORT markets and companies with deteriorating fundamentals and near-term downside risks, when appropriate.
- Core HEDGING strategy designed to protect against systemic shocks, and hedge specific risks to our long positions.

Our approach focuses on finding the best EM opportunities which tend to be present in only a handful of markets at any given time, and avoids the benchmark hugging that is so prevalent in this asset class.

## What key macro trends will underpin your strategy in 2013?

Investors need to prepare for two potential market paths in 2013. The first is that sluggish global recovery continues, and that equity markets perform well while bond yields face upward pressure. Currently, our long positions are structured for this eventuality, while we continue to hedge the tail risks discussed below.

If this global recovery continues, EM equities should be amongst the best performing assets as their better growth and profitability will attract increasing capital flows from global investors. Global investors are currently underweight EM equities, but have begun to increase their

exposure over the last few months.

The second possible market path is that the benign market environment is disrupted by another leg of the global financial crisis. This could come from a disorderly bond market revolt, a resumption of Euro area problems, or a financial crisis in China.

Markets are currently ignoring risks from the Euro area and China, but these need to be closely monitored. China in particular poses risks to EM assets, and while the recent rebound in activity there has likely staved off an immediate crisis, the fact is that this growth surge has been totally dependent on a renewal of the over-investment that is at the heart of China's imbalanced economy, and the risk of financial crisis there has not been reduced or eliminated, it has only been delayed.

Our hedging strategy is designed to protect against this scenario, and we view China tail risk protection as the single most important element of our investment strategy. Geographically we overweight US & Emerging Markets.

## How is your strategy less correlated to the broader market?

Our net exposure is variable with the flexibility to be net long or net short as appropriate, and hedges provide protection against tail risks. Performance within EM will continue to exhibit significant divergence, making our focus on market and sector selection critically important to delivering superior uncorrelated returns.

## Discuss the pros and cons for investing into smaller funds/niche strategies for investors?

Pros: Research shows that smaller funds consistently outperform larger, more established funds. This outperformance will likely grow, as larger funds continue to become more conservative and employ ever more "vanilla" investment strategies as they focus on marketing to highly risk averse institutional investors.

Cons: New regulations are generally more intrusive for smaller funds as they have fewer resources to dedicate to these issues.

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**How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

We have high position and maintain a constant dialogue with them about our market outlook. Our strategy focuses on more liquid names, with the goal to be able to liquidate 95% of the portfolio on short notice.

# Marinus Opportunities Fund (Structured Credit)



## Explain and make the case for your strategy, what is different about it?

After being shunned by a majority of investors for several years, Structured Products have undergone a full metamorphosis, becoming a core strategy for many, and a darling investment for many more.

The reasons for this new found popularity are many – historic low “risk-free” rates courtesy of several quantitative easing programs, Federal Reserve future guidance that seems to leave little to the imagination (or to the imaginative), strong demand for credit risk in its various forms, and improving performance drivers such as residential real estate.

Throughout the year, positive headlines seemed to be caught in an endless competition with one another – real estate recovery heating up, REO to rental programs are taking off, excellent absolute returns are created in mortgage funds, and CLO volumes are reaching new records. In the search for additional income and

uncorrelated returns, structured product attributes suddenly offer several clear advantages – **significant cash on cash monthly income, improving fundamental performance drivers, and attractive valuations relative to other spread markets.**

Increasingly, investors are also recognizing that higher bond prices and lower loss adjusted yields still may not fully reflect the potential for *additional yield and price* improvements, as future realized losses outperform expectations. We clearly welcome this attention, but remain somewhat dispassionate. Our experience through many trading environments has given us the perspective that these very large and deep markets offer opportunities in all cycles.

The challenge is to identify the opportunity set in the context of the prevailing risks. We will always have a focus on capital preservation. We do not blindly swing for the fences. Our approach is to have an equal focus on asset selection, portfolio construction, and liquidity metrics. As high as our conviction may be in one sector or another, we always strive to create a balanced profile in the portfolio, and to measure this profile against risks we are willing to take, and

risks we want to avoid.

We always look to break down the performance drivers into measurable expected return profiles, and seek to create risk offsets within the core holdings before resorting to broader tail hedges. This type of thinking allows us to provide a balanced approach to the markets in good times and bad.

## What key macro trends will underpin your strategy for 2013?

There are multiple trends that develop in the markets each year. We expect 2013 to be no different. While we see some green shoots in real estate, we do not want to hang our hat on any one or group of underlying factors. Our objective is to position the portfolio with offsetting risks, with an expectation that it will perform well in various market environments. We do not believe that it's prudent to position the portfolio to only perform well in a rising market.

There are improving macro trends that will provide a tail wind, but we are not dependent on these factors in order to earn profits. The most obvious factor is real estate. If real estate improves, which many believe it will, our

performance will exceed expectations, however if it doesn't, we will continue to receive monthly income from our positions and performance is expected to within expectations. The same can be said for shifts in growth and inflation.

## How is your strategy less correlated to the broader market?

The broader market tends to be made up of levered beta managers who ride a wave until it crashes. Our focus is on extracting alpha via our top down and bottom up approach. Thus, our source of return (alpha) is different than the broader market, so our returns tend to be uncorrelated.

If you look at the numbers, The Marinus Opportunities fund has a very low correlation to the major market indices, the 60/40 portfolio and the HFR hedge fund indices. There are many reason for this, but simply stated our source of alpha is different than others.

- Income – the current income on the portfolio is approximately 8%. This allows the fund to provide smooth returns and reinvest into changing markets.
- Portfolio Construction – The



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returns are uncorrelated to the major market indices because we are not just leveraging beta. A significant part of our return comes from the portfolio construction and the allocation of offsetting risk factors within the portfolio.

- Macro shifts are hedged outside of the portfolio with liquid and symmetrical hedges.

**Discuss the Pro's and Con's for investing into smaller funds/niche strategies for investors.**

Having managed assets within both large and small organizations, we have found significant benefits in managing a smaller fund. Our systematic approach, which originated at larger shops, allows us to look at all deals, big and small. We have found opportunities in both. We are very flexible and can move quickly as the market changes. If we see a way to improve our systems, we make the change, we don't need to go through the chain of command and then talk to the head of IT, we just make the improvement quickly and efficiently.

As a smaller fund with limited capacity we are able to pick and choose our partners and have no need to be in the business of collecting capital and emailing client reports. Because our clients

are our partners, and our interests are aligned, we are able to be completely transparent.

# RD Legal Capital (Non-Correlated Pure Alpha)



## **Explain and make the case for your strategy, what is different about it?**

Our strategy is extremely different than a typical hedge fund, and is structured as such. We employ an absolute return strategy that focuses on contingency (success based) legal fee cases of US based law firms in which there is a post-settlement payment delay. The fund targets a 13.5% non-correlated return structured as a fixed annual cumulative preferred return. There is no management fee or performance fee and the manager assumes a first loss position.

Unlike many unregistered legal fee receivable firms that operate on a transactional basis, RD Legal Capital, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission and the Investment Manager of the RD Legal Funds. The funds are audited, and employ an administrator and an independent valuation firm.

Unlike most hedge funds, we do not traffic in the equity or bond

market, as our deals are private, and as such the strategy is uncorrelated to the major market indices.

## **What key macro trends will underpin your strategy in 2013?**

The strategy is reliant on the continuation of contingency fee based lawsuits in the United States, not macro trends.

## **How is your strategy less correlated to the broader market?**

Our basic strategy is purchasing very specific legal fee receivables at a discount from specific settled legal cases. This makes the independent cases within the portfolio non-correlated. Further, our strategy is resident in a private market that bears no correlation to the broad equity and bond markets as we do not purchase equities or bonds.

## **Discuss the pro's and con's for investing into smaller funds/niche strategies for investors?**

There is a perception that investing in a smaller fund may give rise to operational risk. RD Legal Funding commenced business in 1997, and the RD Legal Funds began in 2007. Unlike a

typical hedge fund, our Portfolio And operations are extremely process oriented.

In fact, investing with a smaller manager typically gives an investor greater transparency, and more access to different parts of the firm. Investing in a niche strategy gives investors diversification and a very different return stream.

One downside to investing in a smaller manager is size of allocation. In some cases, large institutions are bound by mandate to be no more than 5-10% of a fund's AUM, precluding the institution from participating in the alpha of early-stage managers.

## **How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

We have always offered transparency to investors by allowing them access to the database in which our portfolio information resides. Investors can see every document related to each position. Our website allows investors to view all offering documents, marketing presentations, DDQs, ADV, performance reports, quarterly portfolio statistics as well as

interim audits of a random sampling of the portfolio performed by an independent

accounting firm. Our liquidity terms are as follows: a one year hard lock and 25% redemption per quarter in year two.

We view our investors as partners and welcome any questions or comments.

# Tiber Capital (CTA/Equities)



## Discuss the pros and cons for investing into smaller funds/niche strategies for investors?

In principle, managed futures strategies have the possibility to trade more than 150 global markets, from grains and gold to currencies and stock indices.

For larger multibillion CTAs, saturated AUM can often become crucial in terms of portfolio selection. Strategies across different markets/sectors are not necessarily scalable proportionally to an increase in AUM. Issues may arise in terms of how a market can handle large orders (i.e. liquidity, depth of the book). Many of the traditional commodity markets like grains, meats, and softs can't really handle very large orders without causing a market reaction or leading to increase in slippage cost.

The obvious and physiological result is that managers will tend to increase allocation into financial markets like interest rates, stock indices and currencies.

Addressing this point is a clear example of how Tiber strategies, as an emerging manager with great opportunities to scale up its existing strategies, can provide investors with the opportunity to further diversify a portfolio of assets, regardless of whether or not it already has assets allocated to managed futures. This makes a strong case for low or no correlation to traditional asset classes.

In a pure business perspective, investing in an emerging manager can be seen as an early stage investment, with the benefit of the upside and the possibility to exploit the manager's new alpha potential at its best.

## How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?

First of all, Tiber Capital is an FSA-regulated investment manager. This imposes extra checks and balances on potential fraud and money-laundering activities through registration requirements, and also a wide variety of communication restrictions and performance reporting requirements (that may not protect investors 100%, but still serves as a confidence

booster).

Secondly, managed futures trade exchange listed futures, like Corn futures, Crude Oil futures, or US 30 Year Bond futures. These contracts are carefully monitored, and are typically perceived to carry less risk than over-the-counter (OTC) derivatives traded, for example, by many hedge funds. This results in no counterparty risk as the CME guarantees the trades and acts as the sole counterparty.

Furthermore, Tiber offers the possibility to invest in its Programs through a managed account. Features of a managed account are diametrically opposed to those of a fund structure, and we think this is a great attraction point for investors. Benefits of a managed account include:

- 1) **Custody of Funds (*limited fraud risk*)** – unlike in the case of a fund, with an individually managed account money remains in the investor's name at all times, thus never becoming part of the assets of the manager (and in fact, it does not even become part of the assets of the clearing firm/prime broker used by the manager). Money stays in a segregated account in the investor's

name, with the manager only having authority and access to place trades on the account.

- 1) **Liquidity** - Managed futures are often lauded for their liquidity. If an investor wanted to, he could liquidate a managed futures investment with Tiber within days, favoured also by the short-term horizon of our strategies, which allows for positions to be closed out in matter of minutes. Furthermore, the account is in the investor's name and under his control, hence liquidation can be initiated without input from the manager. This is not true for funds with lock-up periods.
- 2) **Transparency** - Managed futures investors in individual accounts are able to see their positions at the close of every day (and often even in real time). The trading process is made as transparent as possible. On the other hand, many hedge funds are often more reserved about what positions they hold, even with their clients.
- 3) **Leverage** - One of the reasons managed futures is often portrayed as "risky" is because it trades futures

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contracts, which have built in leverage via the commodity futures contracts they trade.

However, this may not be the case for hedge funds. Often they are also leveraged in another ways. They can borrow money to leverage up their returns in addition to any leverage that may be built into the contracts they trade. Associated risks include margin calls and credit market risk.

A managed futures manager cannot borrow money against an investor's individually managed account and increase the bet size with that borrowed money. There is simply no function or structure allowing such activity to take place.

# IMQubator: Thoughts from the seeder...



**Jeroen M. Tielman**  
CEO

## **Explain and make the case for your strategy, what is different about it?**

IMQubator believes that the “new normal” macroeconomic backdrop is forcing investors to search for new sources of alpha: from nimbler, younger and smaller managers. These managers are optimally positioned to dynamically adapt and evolve their strategies to the new landscape of financial markets. Our business model also ensures alignment of interests between investors and managers, full transparency, unrivalled monitoring and strong risk controls.

## **What key macro trends will underpin your strategy in 2013?**

We are not making top down macroeconomic forecasts. However, some of our managers are currently well positioned to profit from the fact that emerging market countries have stronger balance sheets than developed market countries. In contrast to many pension funds that have most of their assets allocated to

fixed income, none of our managers should be vulnerable if the bond selloff that started in January 2013 continues.

## **How your strategy is less correlated to the broader market?**

Many of our managers show low, no or negative correlations to equity indices. This is not a statistical accident or coincidence: they have low equity beta by design. In some cases this is because they avoid trading equities: our CTA manager iStar has no equity exposure. In other cases it is because they hedge equity exposure or operate a market neutral approach. Some of our managers are also trading volatility as an asset class and avoiding directional exposure to equities..

## **Discuss the pros and cons for investing into smaller funds/niche strategies for investors?**

Smaller managers are often willing to align their incentive structure more closely with that of investors. Smaller funds may also offer superior portfolio transparency. Moreover, younger managers may be willing to give cornerstone investors more control over critical aspects of

their fund, such as maximum allowable losses. The drawback of smaller managers is that some of them do decide to return capital to investors after a year or two. However, this can be seen as a strong point in a world where the opportunity set for particular strategies can change very fast. Such voluntary redemptions allow investors to redeploy capital towards more promising areas.

## **How have you been able to develop a transparent operating model and sufficiently liquid product to attract investors who may be wary of alternatives?**

Initially IMQubator insisted that managers maintain their offices at the same location as our own offices. This requirement is transitioning towards real time remote portfolio monitoring offering full transparency at all times. We have ensured liquidity in several ways. Fund liquidity is monthly or quarterly, avoiding gates and lock ups. The portfolio transparency that we have always enjoyed allows us identify possible liquidity mismatches before investing. Two of our funds have returned capital to us swiftly and without complication.