

# Managed Account Platforms 2018



**How to achieve structural alpha through DMAs**

**Tailored solutions for fund managers and investors**

**Rapid growth in OCIO-managed institutional assets**

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# Private MAPs continue to enjoy solid AUM growth

By James Williams

Some of the industry's leading managed account platform providers continue to evolve their solution-based models to meet the custom desires of institutional investors. Platforms have come a long way in the last decade. Whereas originally, they were built as product-focused distribution models to put managers in the shop window, many of today's platforms have pivoted to offer bespoke, solutions businesses to address the myriad demands of investors, large and small.

Public commingled platforms, such as those operated by Lyxor Asset Management, remain highly viable, with Lyxor in particular evolving the platform beyond its Jersey roots to cater increasingly to European investors with the Lyxor Alternative UCITS platform. But it is the private platform solution that is attracting the serious asset inflows.

"Our Jersey platform, which invests in offshore funds, has approximately USD2.5 billion of AUM," comments Moez Bousarsar, Co-Head of Hedge Fund Selection, Lyxor Asset Management. "Our UCITS platform has been building well since 2013 and now has 13 single

hedge fund strategies. Year-to-date, we've added almost USD1 billion of new investor inflows; we were at USD2.9 billion at the end of 2017, and we are now at USD4.1 billion. We are growing at 40 per cent, which is higher compared to what we see in the industry.

"We also have two dedicated managed account platforms and combined these two platforms account for USD11 billion in AUM. We are running these for two large US institutions, one of which is long-standing, the other we added earlier this year."

This is just a small snapshot inside one of many platform providers who have invested substantially in technology and infrastructure to make the managed account proposition far more compelling.

Jean-Francois Crousillat is Managing Director, Franklin Templeton Alternative Investments. Last year, he confirms that they increased their relationship with a state pension plan by customising a portfolio using managed accounts. "On an aggregate basis that relationship increased assets by close to USD1 billion," says Crousillat. "We

also won a mandate this year with a mid-sized consultant, ACG, where we onboarded a couple of their managers into managed accounts and created a new legal structure for investment and operational efficiencies. They now leverage our 40 plus investment, research and risk team, as well as our technology. We have that flexibility.”

K2 Advisors, the fund-of-hedge-fund manager that Franklin Templeton acquired in 2012, adapted its business model by launching a variety of solutions-based opportunities for its institutional clients all the way back in 2002. The group has outsourced the development of their MAP and as Wilson “Bill” Santos, Senior Managing Director, Franklin Templeton Alternative Investments explains: “Our goal is to stay focused on our core competency of investment management and advisory services. We did not want to make the operational commitment to building our own MAP.

“We are not a platform for the sake of it. We’ve moved into managed accounts as a building block for the overall advisory business we provide to our clients. When we think about managers on the platform, we have a very high conviction in them. We are using them in a solution-based advisory business for our clients. This is not ‘pick a manager off a menu and invest in them’ approach.”

This has helped Franklin Templeton Alternative Investments to grow its managed account platform business by 24 per cent over the last year as investors increasingly understand how these structures can be used as part of an overall portfolio strategy.

One key driver behind private platform growth is that it gives institutions far greater confidence investing in emerging manager talent, as they do not have to worry about the operational risks.

Bousarsar says that while an emerging manager will unlikely have institutional standards, in terms of ODD, “the partnership with Lyxor means the manager can put a proper programme in place using our institutional infrastructure. Then the manager is able to tick all the boxes when it comes to the investor ODD process.”

One other advantage of using a private platform to access emerging managers is that investors are able to consolidate the number of counterparties an emerging manager uses.



*“The partnership with Lyxor means the manager can put a proper programme in place using our institutional infrastructure. Then the manager is able to tick all the boxes when it comes to the investor ODD process.”*

#### **Moez Bousarsar, Lyxor Asset Management**

Moreover, this gives managers the opportunity to work with top tier prime brokers that otherwise might not be possible without the backing of a serious institution.

“It therefore helps investors to control counterparty risk and allows managers to also benefit. Once they establish a relationship with that prime broker, for example, it gives these managers the chance to leverage the relationship for the benefit of their offshore fund,” explains Andrew Lapkin, CEO of HedgeMark, a BNY Mellon company.

HedgeMark’s dedicated managed account (DMA) platform recently announced that it had surpassed 100 active client DMA funds, marking a significant milestone in the firm’s growth since beginning its service in September of 2012.

As of 31st August 2018, HedgeMark now services USD16.9 billion in client platform assets. The option to outsource the set-up and day-to-day operations of DMAs to an organisation like BNY Mellon has facilitated an increase in institutional adoption of these fund structures.

“We see an acceleration in the use of managed accounts as more investors see the benefits they can get from doing so; by negotiating and lowering fees, using independent service providers, the ability to use leverage or cash efficiency to enhance returns and so on. It also expands the scope of managers that investors are willing to consider, which would include both smaller and newer emerging managers. Managed accounts are expanding the universe of managers that investors can choose,” says Lapkin.

Although platforms like HedgeMark are growing year-on-year, there remains a lot

of untapped potential. Many institutional investors are still not fully up to speed on all the benefits they could be getting with a private platform model, according to Lapkin.

“There’s still a way to go in the asset owner space. This year we’ve seen more institutional investors looking at the DMA solution than in the past but there is still a group of investors who aren’t ready to change or haven’t fully understood the full benefits of having their own private platform to improve their hedge fund investment management,” says Lapkin.

He does feel that the FoHF community has been quick to embrace it, however.

“They build solutions for a living and this is something that makes sense. FoHF’s are able to utilise the control, fee savings and transparency to offer enhanced solutions to their clients. The FoHF community are not only remaining viable, they are growing their businesses by adding tremendous value to their end investors,” argues Lapkin.

At Gemini, they are using their private DMA structure to give investors a more cost-effective way to invest in hedge funds. The platform has no involvement in manager selection, that is up to the investor, but it takes care of everything else: the legal structuring, investment management agreements, LLC agreements, etc.

“We provide ongoing due diligence on the underlying investment managers and we open up custodial and PB accounts with the asset allocator. After the set-up, we then act as the operational support for the asset owner and the advisor. This includes all of the performance analytics, trade information, guideline monitoring, risk analytics, as well as providing fund reports that go back to the investment board,” says David Young, President of Gemini.

He says that by using Gemini’s DMA solution, investors can potentially save up to 100 basis points.

“Our DMA structure removes a lot of the operational requirements from the advisors, giving them the ability to reduce their management fees for the managed account. We live in a world of fee compression and it is continuing. It is that fixed cost (the management fee) that needs to be addressed,” says Young.

Asset raising for managers is still tough.

Many are fully aware that fee compression exists. But if returns outside of real assets – private equity, real estate – continue to lag, Young believes managers have to do something competitive to attract new inflows.

“Being a little thoughtful around the construction of a portfolio, and the costs associated with it, is something that I think people are becoming more aware of. The number of managers we’ve interacted with for dedicated managed accounts is substantial and even the largest are accommodating these structures, for the right amount of money being allocated.

“We are hoping that by end of 2018 we will have seen assets on the DMA platform increase from USD1.1 billion to USD2.5 billion. Right now we are at around USD2 billion,” confirms Young.

Another advantage to the private platform is that it effectively becomes an extension of staff for the investor. This is a key driver behind industry growth in Santos’ view.

“In that context we want to offer a variety of solutions for our advisory business. For example, we just put together a cash-plus portfolio for a large state pension plan. A lot of pensions have moved into private equity and private debt and this requires them to accrue cash to meet capital calls. But they are getting low returns on that cash.

“We put together a low volatile, daily liquid portfolio for this client to enhance the yield on a portion of their cash portfolio. Another example is one of our large consultant clients was concerned with where we are in the late stage of the equity markets cycle. They wanted to adopt a defensive stance and take some of the beta down in their equity investment bucket. We built a low beta defensive equity solution composed of long/short equity managers,” explains Santos.

He says the next big initiative with large US investors will be to focus on an ESG investment program as we head in to 2019.

Across the private MAP landscape, platforms are continuing to evolve their value proposition and remain as committed as ever to giving institutional clients the most optimal route to investing in hedge funds as possible. On that basis alone, one should expect AUM growth to continue to climb over the next few years; especially if volatility returns to the markets. ■

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# A good sherpa as OCIOs ascend

Interview with David Young

In an environment of fund fee compression, leveraging a private managed account platform may offer an easier way for an outsourced chief investment officer (“OCIO”) to get approval from pension fund investment committees.

The traditional consultant model has been non-discretionary, where the consultant makes investment suggestions to the pension plan board, which then makes a collective decision. Now, the consultant community is pivoting to act as the OCIO as institutions look to reduce pressure on internal resources and deal with the complexity of generating sufficient returns to meet their long-term liabilities.

The growth opportunity in this space is clear, with OCIO-managed institutional assets having risen 23 percent to USD1.74 trillion according to [Pension & Investments’ money manager survey](#).

This is playing very much to the advantage of platform providers such as Gemini, which operates an open architecture environment that facilitates the creation of Dedicated Managed Accounts (DMAs) for large institutions.

By utilising this type of solution – which is essentially an ecosystem that is owned and controlled by a single institutional investor – an OCIO manager can closely monitor underlying managers on a regular basis. More importantly, the solution provides tangible cost reductions; something any investment committee notices.

“An OCIO realises they have the ability to structure something more beneficial to the pension’s participants. They can aggregate all of their operations and also reduce costs, which ultimately augments the pension’s underlying investment pool,” comments David Young, President of Gemini.

“The struggle pensions go through to



David Young, President of Gemini

meet their long-term liabilities is substantial. They have to safeguard the wealth of thousands (if not hundreds of thousands) of people. The fact that just the structure alone can offer a 100 basis point savings is critical. And something pension boards might not be aware of.

“It’s easy to say you can save someone money, but we can demonstrate how you save money,” asserts Young. “Rather than continuing to invest with multiple layers of costs coupled with inefficient operating structures in place, which leads to errors and mistakes getting magnified over time, our solution gives institutions straight-through information at less cost.”

As consultants increasingly move into these OCIO roles to manage owners’ assets, Gemini sees itself as an experienced Sherpa, supporting them as they ascend their proverbial investing summit; explaining the structural alpha they are gaining every step of the way through bespoke reporting.

“We are helping the consultant community better serve their asset owner clients. It gives them the opportunity to present themselves in the best possible light to pension plans,” says Young. In the early days, investors paid a premium to use managed account platforms. “At Gemini, we’ve removed that premium and given these OCIOs a differentiator when competing for asset owner business,” adds Young.

“By leveraging the platform, our clients have been able to trim 20 basis points off long-only strategies just by being able to negotiate fees with advisors. If we can contribute in excess of 100 basis points in alternative strategies through structural and operational efficiency, we think there’s a story to be told. There’s a big difference between saying you had a 7 percent return on the year versus 6 percent.” ■



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-Andrew Lapkin, Chief Executive  
Officer of HedgeMark

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# Achieving structural alpha through DMAs

By Joshua Kestler

Institutional investors are increasingly shifting their hedge fund investments from traditional, commingled structures to Dedicated Managed Accounts (DMAs). A DMA is a customised single investor hedge fund with portfolio assets ultimately owned (and controlled) by the investor. One of the most attractive benefits of DMAs is the opportunity to utilise the DMA structure to achieve “structural alpha”. Structural alpha is the ability to enhance returns by taking advantage of the unique structural aspects of a DMA. There are several ways that investors achieve structural alpha through a DMA structure.

A DMA is a separate vehicle and can often have key differences from the manager’s commingled fund, such as differences in investment strategy and investment guidelines. In addition, a DMA substantially reduces the operational burden of the manager which can help justify a lower management fee. The use of a DMA structure combined with a significantly sized investment can and often does allow the investor to achieve a material discount from the manager’s standard fees. DMAs also allow the investor to design custom fee structures such as fixed or flat management fees, incentive fee hurdles and performance claw-backs. DMA investors can generate significant cost savings from both reduced and custom fee structures.

A DMA allows an investor to potentially lower fund expenses by selecting platform level service providers (e.g. administrator, auditor, etc) and using its aggregate assets to achieve economies of scale through platform pricing. Similarly, some investors consolidate the prime brokerage business done across their DMA platforms with one or two prime brokers to obtain more favourable, platform level financing and commission rates. In addition, DMAs create



**Joshua Kestler, President  
& Chief Operating Officer at  
HedgeMark**

the opportunity to lower fund expenses by prohibiting or limiting the manager from passing through manager level expenses to the investor’s DMA.

DMA investors have increased flexibility to lever their investments. The DMA investor can elect to fund only the necessary margin in addition to a reasonable cash buffer in order to obtain the desired investment exposure. Certain hedge fund strategies such as managed futures strategies are inherently cash rich and allow the investor to maximise the benefits of notional funding. The excess cash is controlled by the investor and can be deployed towards other investments to obtain an additional return. The investor can use the excess cash to obtain an enhanced return which delivers cost savings when compared to a similar investment in the manager’s commingled fund.

Unlike commingled hedge funds, DMAs provide investors with daily position-level transparency. DMAs allow investors to monitor and analyse daily performance, performance attribution and risk exposure. The availability of this “actionable data” can drastically improve an investor’s investment and risk management. In addition, the transparency available through DMA structures may give investors the confidence to build more concentrated portfolios rather than mute returns by over-diversifying as a risk management approach.

DMA structures offer a variety of ways for investors to achieve “structural alpha” and thereby, the ability to enhance their hedge fund returns. These incremental increases in returns can be quite impactful as they compound every year for the life of the investment. The ability to increase annual returns is the reason that “structural alpha” is one of the key drivers fuelling the increase in DMA adoption by institutional hedge fund investors. ■



# Segregated managed accounts: caveat emptor

By James Williams

The demand among institutional investors for managed account solutions continues to evolve, as they seek out new structuring solutions and vehicles to meet their investment return, liquidity, transparency and jurisdictional needs.

One of the manifestations of this evolution is the emergence of using regulated fund vehicles to optimise their hedge fund allocations, not only in UCITS funds but also Alternative Investment Funds (AIFs) under the European AIFM Directive. Lyxor Asset Management has been operating managed accounts for two decades. Over that time, it has seen, and responded to, changing market dynamics. More recently, this has meant focusing on building out a larger range of liquid, regulated alternative UCITS funds on the Lyxor Alternative UCITS platform.

Offshore commingled and dedicated funds still dominate the Lyxor MAP, in terms of AUM (approximately USD13.5 billion), but the compass bearing has changed with respect to future evolution.

As Moez Bousarsar, Co-Head of Hedge Fund Selection, Lyxor Asset Management explains: “Four years ago, the bulk of our managed accounts were a range of offshore commingled funds mainly selected for institutional investors. Over the past two years, however, the Lyxor platform has definitely changed in terms of its priorities as relate to the products and services we offer clients. The level of assets on the offshore fund platform remains strong and we still have big names but interest among our investors has focused mainly on regulated UCITS funds.”

In addition, Lyxor's investor base has shifted to a more balanced mix between institutional and distribution. More than just a managed account-based offering, Lyxor's MAP has, says Bousarsar, become a centre point of expertise, "providing clients with research, selection, products and infrastructure services in order to help them with fund investments across different asset classes".

LumX Group operates its LumMap platform as an Irish ICAV and has visions to build out a suite of AIFs to give European institutional investors access to hedge funds that can closely replicate offshore strategies without any of the restrictions of the UCITS regime.

Eric Bissonnier is CIO of LumX Asset Management and a member of the LumX Group's Executive Committee. In his view, there is still a disconnect between how much an AIF can be helpful to the end investors, and their current perception.

"We've seen awareness grow over the last 12 months and the AIF becoming more well-known to investors," confirms Bissonnier. "However, the UCITS structure still remains the default option. It takes time for investors to take on board the fact that the AIF is the better option, because over the years, UCITS investing has become a habit; it's what they are used to. It's either an offshore Cayman fund or an onshore UCITS fund.

"They hear about the AIF but it still remains a slightly nebulous concept to them. We are doing quite a lot of work to explain how the AIF works and why it is a compelling proposition, both for asset managers and investors.

"The education part is important and continues to evolve. Investors are creatures of habit at the end of the day."

From a supply/demand perspective, it could be argued that the supply side (i.e. hedge fund managers) is somewhat more restrictive than the demand side. Institutions have long understood and leveraged managed accounts for their long-only portfolios, and while early stage alternative investors might prefer to use commingled managed accounts, those with deeper pockets and a more sophisticated palette are opting to build their own bespoke managed account mandates.



However, this is predicated on managers wanting to accept an SMA in the first instance. Some managers are not as taken by the merits of managed account mandates as others.

"If managers have a choice, in my opinion, they don't take managed accounts because they are potentially a bit of a headache," remarks one London-based global macro hedge fund. "It makes everything more costly. You've got to book trades separately, sometimes with a different prime broker so there is more chance of making mistakes; it just makes everything more difficult.

"The manager gets more assets but everything else is a negative. There should be an overriding reason for why an investor would decide to use a managed account. It needs to be well thought out because by using one of these structures it puts an unnecessary drain on the investment manager in my opinion."

As such, MAP providers still need to get the message out that the operational burden, or the drain on a manager's resources, is not necessarily the case.

"We perform all of the non-investment functions," remarks Andrew Lapkin, CEO of HedgeMark, a BNY Mellon company. "The manager is almost exclusively limited to trading within our structure; moving any collateral, handling the NAV, etc; this is all done by us, unlike some other platforms who expect the manager to perform these functions. If a manager is having to use additional third parties to handle the managed account, it adds to the cost, which investors need to be aware of."

Knowing that the platform is fully willing and able to handle all of the operational non-investment functions is critical. This is especially so when a large institution embarks on using carve-outs of investment strategies, possibly to create a more concentrated book, or to meet ESG criteria; whatever the reason, customised demands potentially place an even more onerous burden on the manager.

LumX's network of service providers, trading counterparties, and prime brokers ensures fully independent valuations, tight control over mandate guidelines and limits, and direct verification of asset custody and ownership for each fund on the platform. It also typically offers managers the flexibility to trade through their preferred counterparties, minimising their internal administrative burden.

"We're providing a solution rather than just a platform," says Bissonnier. "We approach it from an asset manager's perspective because that's our heritage. We've been investing in hedge funds for decades and therefore we understand each manager's issues, as well as what investors are looking for in terms of types of vehicles, how they wish to monitor strategies and so on.

"We spend time understanding what the manager needs, rather than fitting them in a box and sending them a pre-specified term sheet which they can't change. Our ability to come up with a tailored solution has been the main driver for managers wishing to join us.

"If you look at other platforms which are typically owned by service providers, they have a different incentive. For some managers who maybe have a complex



*"If the platform is respected and well-known, there may be a 'halo effect' in that if the platform is very particular about whom they let on, this can benefit managers and present their funds in a more positive light."*

**Evan Katz, Crawford Ventures**

strategy, it can quickly become a difficult discussion, which they might not have the bandwidth to handle.

"I believe that our flexibility and willingness to provide something that is tailored to what they need, within legal and structural boundaries, makes managers' lives a lot easier. To them, operating on a platform is suddenly achievable rather than feeling they might get lost in the operational details."

#### **Halo effect**

Evan Katz is a Managing Director at Crawford Ventures, the New York City-based hedge fund fundraising firm. He believes that there are two principal advantages to using managed accounts. The first is that it removes some of the operational risks that investors face, especially if they are investing in small or emerging managers. Because the platform will typically provide robust infrastructure and operational oversight, often far greater than these managers are able to afford or provide at that stage of their lifecycle.

"Secondly, if the platform is respected and well-known, there may be a 'halo effect' in that if the platform is very particular about whom they let on, in terms of fund performance and the pedigree of the portfolio management team, this can benefit managers and present their funds in a more positive light.

"Furthermore, there is also the possibility of increased capital inflows from being on a prominent platform, especially if the platform also offers fundraising and cap intro services. Although in some cases this may be more hope than expectation, it definitely does occur," suggests Katz.

Managed accounts are becoming an easier concept for managers to consider given technology advances, compared to a decade ago. As a rule of thumb, says Katz, if an allocator wants to do a managed account typically “they will need to invest the equivalent of at least 20 per cent of the manager’s AUM.

“That is, if an emerging manager has USD100 million in the fund, many would consider accepting a managed account for about USD20 million or more. But there are some investors, including some endowments, foundations and pensions, that often don’t want managed accounts, because they don’t want to be doing their own account setup, ISDAs and so on.

“It is also worth noting that regulators are looking closely at these structures in order to verify and ensure that all of the fund’s trading orders are being executed accurately and *pari passu* among the onshore fund, the offshore fund, and any and all platforms and SMA’s, and that all of the orders are being executed simultaneously. This is to ensure that the none of the fund’s investors are benefiting from better execution and prices than any of its other investors,” explains Katz.

This is a key point as any hedge fund manager must always consider how taking on a managed account mandate might potentially impact existing investors in their offshore fund(s).

“If an investor wanted to appoint us to a private mandate we would want to clearly determine what terms they were asking for, for liquidity, structure and fees, such that it would not disadvantage our existing clients,” comments Susannah de Jager, Partner and COO, SW Mitchell Capital, a European equities investment manager.

“Our level of comfort, on the whole, is greater if someone is setting up an SMA with longer liquidity terms, to avoid skewing anything in the flagship strategy.”

She says that, conceptually, SW Mitchell is comfortable with taking on managed accounts but stresses that each potential mandate would need to be assessed on its own merits, so as to ensure that it would work harmoniously within the overall investment strategy.

“In our experience, the smallest least



*“Our level of comfort, on the whole, is greater if someone is setting up an SMA with longer liquidity terms, to avoid skewing anything in the flagship strategy.”*

**Susannah de Jager, SW Mitchell Capital**

institutional accounts you take on tend to become the most burdensome, just by the nature of the way these things work. Those investors with the least experience of using managed accounts need more handholding,” adds de Jager.

Taking on a managed account is an easier concept if it is an asset owner of size and they are a long-term asset owner. In such a situation, using such a structure make sense. It ensures all parties are correctly aligned, it gives the investor greater transparency, and it should lead to reciprocity for the manager if they know this is a long-term commitment.

“Our long-term experience of using managed accounts has been very positive,” says one hedge fund manager, who asks to remain anonymous. “As a general rule we’ve had very good relationships with people, they’ve set up everything the way they wanted, received reporting when they needed it, they’ve been able to do currency hedging and so on, in order to meet their specific investment requirements.

“On the flip side, if you have an asset owner who is going into it for lack of a suitable commingled fund, I would say it can have a more negative effect. We’ve had situations in the past where there has been promise of further growth in the mandate by the investor, it fails to happen and it then leads to a mismatch in terms of the effort it takes to set up the SMA and the fees taken.”

Investors therefore need to be wary about unnecessarily introducing complexity if it doesn’t match the reward: this benefits neither party. There is plenty of appeal to using a managed account to improve one’s customisation to hedge fund investing, but it is not without risks and requires substantial planning and a clear vision.



"I would say the minimum amount for taking on a managed account mandate is USD50 to USD100 million before it even starts to make any sense for the manager," suggests the global macro manager.

Katz relays an anecdote that highlights an issue in terms of how some institutions really use managed accounts. Much is made of the added real-time transparency and control, but what, if anything, do investors really do with all that data? Do they really analyse it on a daily basis, to track their portfolio of potentially dozens of hedge fund managers?

"One manager I met with recently told me that he was curious just how many of his hedge fund's investors were actually checking on the daily numbers and positions, using the fund's real-time investor portal. To test this, at the start of the month, the PM changed everybody's passwords and waited to see how many investors called him to say, 'Hey, we're having trouble accessing the portal'.

"He waited two weeks and the percentage of investors who called was roughly only 10 per cent," recalls Katz. "That is, some 90 per cent of the fund's investors were not even bothering to use the fund's full-transparency portal."

Does an SMA, therefore, give investors a false sense of security perhaps?

"You certainly need to make sure that things are automated to effectively monitor investment guidelines, risk controls, etc," continues Katz. "If a manager isn't abiding by position or sector limits, for example, or leverage limits, this should get automatically flagged and immediately brought to the investor's attention.

"It's very hard to effectively monitor many managed accounts manually. Investors need that system automation set up on their end. Otherwise I think it is a bit of a false sense of security."

Bissonnier says that the liquidity argument for using fund platforms is somewhat of a red herring. In the current market environment, institutional investors are all too aware that they need to diversify into more illiquid investments - hence why private equity and real estate funds have attracted so much capital.

"Some of the most interesting investments are illiquid in nature, so to solve the liquidity conundrum (and avoid becoming a forced seller) the best option is to have your own structure. One where you can make sure that someone is checking that the pricing is done independently and to make sure the manager is doing what they should be doing, which is the premise of using managed account platforms," concludes Bissonnier. ■

# Investors looking for some TLC

Interview with Wilson Santos & Jean-Francois Crousillat

Since 2012, K2 Advisors, one of the industry's largest hedge fund advisory groups, has been part of Franklin Templeton Investments. It has, in many ways, been an ideal marriage, with K2 bringing alternative fund solutions expertise and Franklin Templeton bringing a distinguished history in traditional registered investments.

Over the last six years, this has led to substantial growth in the firm's managed account platform, which it uses as one of the building blocks to craft solutions for its institutional business as well as its registered '40 Act and UCITS business.

As Wilson "Bill" Santos, Senior Managing Director and Global Head, Franklin Templeton Alternative Investments explains:

"We currently have USD11.8 billion in AUM on the platform, of which USD7.2 billion is in managed accounts. We grew by 24 per cent last year and the majority of that growth was in managed accounts.

"We have multiple ways of using these structures. Overall, I would say that transparency and lower expense ratios are becoming more important for institutional investors and managed accounts are a good way to address these issues."

"We are able to customise solutions for every client so flexibility is really key in how we use managed accounts to support our current client base," assert Jean-Francois Crousillat, Managing Director, Franklin Templeton Alternative Investments. "On the registered side," he says, "the managed accounts offers us an advantage by bringing lower fee, daily liquid products to the market.

"Our multi-strategy fund has 15 underlying managers. Each and every one of them offers daily liquidity and each is priced at a flat 1 per cent management fee with no performance fee. The fund is now in its sixth year."



**Bill Santos, Senior Managing Director and Global Head at Franklin Templeton**



**Jean-Francois Crousillat, Managing Director at Franklin Templeton**

There are two other registered fund products on the platform: the Franklin K2 Long Short Credit Fund and the Franklin K2 Global Macro Opportunities Fund. The Long Short Credit Fund is set to reach its three-year track record and has just received a 4-star Morningstar rating.

"Approximately USD3.7 billion of the USD7.2 billion in managed account AUM sits in these registered products (of which USD3.5 billion is in the multi-strategy fund). The rest of our AUM is made up of custom managed account mandates for our institutional clients.

"We have make it easier for our hedge fund managers to run managed accounts for us by removing the middle office and operational burden. The managers' main focus is trading. That's it. We have longstanding relationships with every one of the managers that we work with on the platform, having invested in their flagship LP structures as well. So it's been an evolution of our relationship with those underlying managers," outlines Santos.

Crousillat believes there is still plenty of growth coming from the pension plans for hedged strategies.

"They want to report better transparency, governance, lower fees, etc, to their investment boards, so I think the custom mandate business will continue to grow.

"We are very tactical in how we approach this: Does the institution want a defensive equity strategy, for example, or a volatility hedging strategy? How do we take in a group of high-quality hedge fund managers and construct something that doesn't just make sense on a standalone basis but also makes sense in terms of how it fits in to a client's broader portfolio?

"That's what really excites us," concludes Crousillat. ■

# LumX to grow its AIF platform offering

Interview with Eric Bissonnier

LumX Asset Management has been at the forefront of developing innovative alternative investment solutions for more than 25 years. One of the central tenets of its business model is its structured funds platform and structuring business, LumMap, designed to give a highly tailored solution to fund managers and investors, with strong governance, risk controls and deep position-level transparency thanks to its affiliation with LumRisk, an independent subsidiary of the LumX Group.

Previously operated from Jersey, in June 2018 LumX established a platform offering in Ireland, structured as an ICAV master/feeder, giving global institutional investors access to regulated AIFs. All funds on the platform are AIFMD-compliant and can be freely distributed and marketed to investors in the EU.

The platform has been designed to meet high fiduciary standards of governance and is unique in the sense that it is fully integrated with LumRisk, a risk aggregation and reporting platform that offers investors daily, position-level transparency on their investments.

Eric Bissonnier is CIO of LumX Asset Management, and a member of the LumX Group's Executive Committee. He confirms that one manager is already on the platform, running a commodities trading strategy and discussions are at advanced stages with more managers.

"We have a long/short equity strategy which is in the pipeline, and we have a couple of less liquid strategies with a family office we are working on. We also have a fixed income arbitrage manager in the pipeline so it's quite a broad range of strategies. Even though the ICAV is flexible, these set-ups take a while," says Bissonnier.

LumMap gives fund managers who do not



**Eric Bissonnier, CIO of LumX Asset Management**

have an AIFMD license or who otherwise do not have the operational set-up the ability to structure and launch AIFs (which are established as sub-funds underneath each of the LumMap ICAV Master Fund and LumMap ICAV Feeder Fund) with full freedom to replicate an offshore strategy, in contrast to the UCITS regime where the guidelines are demonstrably more stringent.

"An AIF provides a lot of flexibility, which is important in a hedge fund investing context," says Bissonnier. "The closer it is to the offshore fund, the better. An AIF allows investors to meet their objectives within a regulated structure.

"Some institutions still require UCITS, of course, but increasingly there is an understanding of the limitations of UCITS. With an AIF, you have an onshore regulated fund that looks like a Cayman fund, to all intents and purposes, in terms of flexibility for a fund manager to replicate their strategy."

The LumX team has the expertise to model a broad range of securities in considerable detail, which is advantageous when the fund strategy is more complex or illiquid. The platform uses a range of independent service providers, meaning independent pricing and independent risk management can be offered, in doing so reducing two common areas of conflict that tend to arise between fund managers and investors in traditional offshore funds.

If the fund manager prefers, LumX can create a dedicated structure for them. Obviously, there are clear economies of scale and benefits to those fund managers who share the LumMap platform "but if the manager thinks they can cover the costs from growing AUM over time, we can and do, set up their own platform," says Bissonnier. "For us, the operational backbone



is just the same. If the fund manager opts for their own master/feeder fund, as opposed to sub-funds, the costs are not shared so there is more of a cost burden to consider.

"Whether they have their own structure or not, fund managers are unlikely to get the same flexibility from other larger managed account platforms. We approach this with an asset manager background and heritage, so we know exactly the sort of challenges fund managers face. In my view, that helps to differentiate us in the market."

As it builds the platform manager universe over the coming years, LumX will look to favour smaller and emerging managers who have a trading pedigree but who, for example, might have less sophisticated operational capabilities; making it difficult for European institutional investors to allocate to them as a result.

Bissonnier is very clear in stating that every manager they partner with must have a clear AUM strategy.

"We are not a distributor in the formal sense. This is something fund managers appreciate because it means they have full

control of distribution and any fee-sharing arrangements when they join the LumMap platform. The platform is, I believe, more suited to managers that have potential investors lined up but simply lack the organisational structure. It pre-disposes that their strategies are of interest to allocators, either because they have demonstrated idiosyncratic returns or because the strategy is novel; or both," he says.

In respect to LumRisk, there are two ways this helps fund managers and investors.

Firstly, LumRisk provides risk control checks on a daily basis to make sure portfolios remain within predetermined guidelines, and that any breaches of investment guidelines will be immediately flagged and acted upon.

"Secondly, it gives managers the ability to share transparency through LumRisk's web-based portal. Investors look at the same T+1 information as the fund manager, so there is no inconsistency in reporting. It provides investors with additional comfort in having a detailed position-level granular view of their portfolio and allows for constructive dialogue between fund managers and investors.

"LumRisk is seamless in that sense because it is based on the same transparency as that used for the investment guidelines," says Bissonnier.

LumRisk can be tailored to the fund manager's desire for transparency, where it can be controlled at the exposure level or extend all the way down to the position level. As the tool is easy to use, it allows for a nice turnkey solution; once the AIF is up and running on the platform, risk reports can set up to be sent on a daily, weekly or monthly basis. "For smaller and emerging managers, that ability for information sharing is something they really value because of the quality of the tool and the level of integration with the portfolio data," comments Bissonnier.

As investors move into more illiquid hedge fund strategies, having the right partner who can handle the complexity and provide robust risk oversight and transparency, is likely to grow evermore important. Factor in the regulated nature of AIFs, and LumX is hoping that fund managers and investors alike will turn to its platform solution and the myriad benefits it can provide. ■