

Hedge Funds in the News - 19 July 2013

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2. WHERE IS THE SWEET SPOT FOR HEDGE FUND AUM?

Investors who plumped for a middle-sized, equity-focussed hedge fund stood a better chance of outperformance last year than those opting for larger or smaller options, research has found.

3. BRIDGEWATER'S MCCORMICK SAYS HEDGE FUND IS LONG U.S. TREASURIES

David McCormick, co-president of Bridgewater Associates, said on Wednesday that the hedge fund is long U.S. Treasuries even after the market sold off recently.

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7. IDENTIFYING THE RIGHT STRATEGIES IS CRITICAL

The key to offering a robust UCITS platform to support hedge fund strategies is making sure that what is being offered is suitable for the specific clients being targeted, according to Ian Swallow (pictured), Head of UCITS Management at Man.

8. ALTERNATIVE INVESTMENTS PROVIDE FAVOURABLE RETURNS AND DIVERSIFICATION TO US P/C PORTFOLIOS, SAYS FITCH

US property/casualty (P/C) insurers invest in alternative and other less traditional asset classes, including hedge funds and private equity investments, in an effort to gain portfolio diversification and enhance investment returns, according to a report by Fitch Ratings.

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10. CORDIUM TO ASSIST HEDGE FUNDS ENTERING MUTUAL FUND SPACE

Hedge fund consultant Cordium (formerly HedgeOp Compliance and The IMS Group) has launched an offering that will assist hedge funds branching out into the highly regulated mutual fund space.

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1. COMMODITY HEDGE FUNDS SUFFER LONGEST LOSING STREAK ON RECORD

Funds betting on commodity price moves have lost money every month since January, their joint longest losing streak on record, raising more doubts about their ability to make money at a time when the commodity "supercycle" may be over.

The average fund slid 3.58 percent in the first six months of the year, according to a widely watched Newedge commodity index. Funds have only suffered five consecutive losing months once before, in 2002-2003, the index shows.

Hedge funds market themselves as capable of making money in all markets, yet funds trading commodities as varied as gold, grains and gas, have failed to turn an annual profit in the last three years.

The weak performance will put more pressure on the industry to lower fees and introduce clawbacks, which enable investors to reclaim some performance perks paid to hedge fund managers in boom times if the returns they hope to achieve fail to continue.

Worries about cooling demand in key markets like China, and a huge shift in the supply-side from shortage to glut, has sent prices tumbling in recent years, and left many warning that the end of the commodity "supercycle" - the long period of rising commodity prices - is here.

"Historically most of these funds have been a levered beta play on the commodity cycle, or in some cases arbitrageurs of commodity spreads," Michele Gesualdi, portfolio manager at hedge fund investor Kairos, said.

"The end of the supercycle has hurt the first area, while the volatility and discrepancies that have arisen in forward markets have made life difficult for the second."

Adding to the sector's woes, hedge funds which trade other asset classes such as equities have rebounded this year, including those that trade mining and energy shares.

The \$1 billion fund of Clive Capital, a firm which trades oil and ran about \$5 billion at its peak, is down 3.5 percent to June 28, performance data shows. Krom River's Commodity Fund has lost 4.4 percent to end-June, while Brevan Howard's Commodities Strategies Fund is off 2.5 percent to June 28.

Funds trading bullion are nursing some of the heaviest losses. Gold has tumbled this year on expectations the U.S. Federal Reserve will cut back on its money-printing programme, which had driven gold to record highs.

John Paulson, the billionaire U.S. investor, has seen his gold fund, his smallest with \$300 million in assets, plunge 23 percent in June and is down 65 percent this year.

Despite the losses, most managers are not down as much as commodity prices this year - the 19-commodity Thomson Reuters-Jefferies CRB index .TRJCRB fell 5.7 percent through end-June.

Some have also shone. After losing 30 percent in 2011 and 7.6 percent and a big chunk of his assets in 2012, Mike Coleman's Merchant Commodity Fund is up 24.2 percent this year.

But the bigger concern for commodity funds is proving they can consistently make money amid a sustained downward trend in prices.

The problem, investors and managers say, is that the long, gradual trend of rising prices has been replaced with shorter, more uncertain trends, in which prices can plunge suddenly, making it difficult to profit from their slide.

Commodity prices, down 22 percent from a 2011 peak, have entered bear market territory, while volatility - which some funds thrive on - has also fallen, challenging managers further.

All the funds mentioned either declined to comment or could not immediately be reached for comment.

Source: Reuters, 18 July 2013,

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2. WHERE IS THE SWEET SPOT FOR HEDGE FUND AUM?

Investors who plumped for a middle-sized, equity-focussed hedge fund stood a better chance of outperformance last year than those opting for larger or smaller options, research has found.

US-based, equity-focussed hedge funds with between \$500 million and \$3 billion performed the best out of their peer group in 2012, partly due to their size, a survey by Tabb Group today has shown.

"Medium-sized hedge funds fared the best in 2012, with 79% reporting positive performance and only 14% experiencing negative performance," the survey said. "Small firms reported the largest percentage of negative performance, but this represented an improvement over 2011. The largest hedge funds had the most mixed results, with a quarter reporting flat results."

Aside from manager talent, the actual size of the hedge fund appeared to be one of the main factors contributing to performance.

Large firms-classed in this study as having more than \$3 billion in client assets-have the capital "to invest in the technological and infrastructural requirements needed to comply with new regulation and to expand into new asset classes and regions in search of alpha", Tabb Group said. Smaller firms on the other hand, have the nimbleness to adapt strategies easily and at relatively low cost.

Mid-sized firms, however, straddle these two strata, a position "that allowed these firms to simultaneously punch above their weight and move a bit more quickly".

Some 63% of large firms reported positive performance with 12% reporting a loss. Smaller firms produced similar positive results-62%-but 31% reported losses over 2012, Tabb Group said.

The philosophy behind a firm was also an important factor, the survey showed.

Idea-driven equity-focused funds of all sizes performed 30% better than model-driven strategies in 2012. Only 18% of idea-driven strategies reported negative performance in 2012, compared to 29% of model-driven ones. Some 75% of idea-driven strategies reported positive performance last year, compared to 43% of their model-driven rivals. The remainder were flat.

"It is well-known that some of the trends in the market place are playing havoc with quantitative models right now, including high correlations, liquidity-driven asset prices, persistent global macro crises, and the increase in activist investing," the survey said.

Across the board, hedge funds of all sizes and style persuasion reported inflows over 2012, pushing the industry's total assets under management higher than \$2 trillion for the first time since 2008.

Source: Asset International's CIO, 17 July 2013

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3. BRIDGEWATER'S MCCORMICK SAYS HEDGE FUND IS LONG U.S. TREASURIES

David McCormick, co-president of Bridgewater Associates, said on Wednesday that the hedge fund is long U.S. Treasuries even after the market sold off recently.

McCormick, a former U.S. Treasury official, speaking at the CNBC Institutional Investor Delivering Alpha Conference, also said he thought the recent sell-off in the Treasury market was overdone.

The sell-off was sparked by fears that the Federal Reserve would start to slow its \$85 billion in monthly bond purchases amid signs that the U.S. economy is recovering.

Fed Chairman Ben Bernanke tried to calm those fears last week when he said that the U.S. central bank would pursue an easy money policy for some time to come.

Source: Reuters, 17 July 2013

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4. ICAHN THANKS RIVAL ACKMAN FOR MAKING HIM EVEN RICHER

Billionaire investor Carl Icahn, known for his strong-arm tactics in America's boardrooms, tried to bury the hatchet on Wednesday with a host of former rivals, including fellow hedge fund manager William Ackman.

Less than six months after he fought with Ackman live on cable television and compared the hedge fund manager to a "cry baby" in a school yard, Icahn told investors at a conference on Wednesday that he won't say anything bad about Ackman any more because he made a wealthy man even richer.

"Anyone who has made me a quarter of a billion dollars, I am not going to say bad things about," Icahn, whose net worth is estimated at around \$20 billion, said about Ackman.

The 77-year-old Icahn, who has been described in print as one of the inspirations for the character Gordon Gekko in the 1987 movie "Wall Street," was speaking on Wednesday at the CNBC Institutional Investor Delivering Alpha Conference.

Ackman, 47, who spoke at this conference last year, said he was not able to attend this year because he was traveling to a board meeting in Canada.

Icahn has famously bet on nutrition and supplements company Herbalife, while Ackman's Pershing Square Capital Management has a \$1 billion short on the stock - a bet that Herbalife's stock will fall. So far, Icahn is making money while Ackman is in the red on that bet.

Icahn similarly said he does not dislike Michael Dell, the computer entrepreneur who is trying to take Dell private, a plan that Icahn is urging shareholders to reject.

Even if he loses that battle - and Icahn said he doesn't think he will - he said he would call Dell up and congratulate him.

"I don't know if he'll talk to me, but I'll call him up."

Icahn even seemed to have mellowed somewhat toward various unnamed chief executive officers with whom he has tangled in his long career as a corporate raider and activist investor.

"They aren't bad guys," Icahn said, reserving his irritation for corporate boards.

But he acknowledged that many CEOs like to spend a lot of time golfing and "the only way to get them off the golf course is to tell them Mr. Icahn just got off the phone and he's filing a 13D," in a reference to the U.S. Securities and Exchange Commission filing alerting regulators and the company that an investor plans to take an activist position.

While he tried to calm the waters with certain rivals, he heaped plenty of criticism on corporate boards, calling the board at Dell a "dictatorship."

"They would have gotten away with it if I didn't have a spare \$3.5 billion lying around," Icahn said of the money he invested to stop the buyout offer led by Michael Dell.

Icahn said he still enjoys his work. He drew roars of laughter from the crowd as he recalled how he has changed his mind about so many rivals.

"A CEO once told me, 'There is war and there is peace,' Icahn said, adding, "and then he said, 'There is war and there will be peace, again, Carl."

Source: Reuters, 18 July 2013

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5. BILLIONAIRE ICAHN 'DEFINITELY' HAS A CANDIDATE FOR DELL CEO

Billionaire investor Carl Icahn said he “definitely” has a candidate in mind to be Dell Inc. (DELL)’s chief executive officer if he succeeds in his fight for the personal-computer maker.

“You can believe that we’re going to do whatever it takes to get someone,” Icahn said today at the CNBC Institutional Investor Delivering Alpha Conference in New York, citing past successes replacing management at Biogen Idec Inc. and Motorola. Icahn didn’t elaborate on the possible candidate to lead Dell.

Icahn, who holds an 8.7 percent stake in Dell, has been agitating to force founder Michael Dell and buyout partner Silver Lake Management LLC to sweeten their \$13.65-a-share offer to take the computer maker private. His rival offer of \$14 would allow Dell shareholders to retain equity in a publicly traded portion of the company, plus a warrant that could be exchanged for additional stock should Dell climb higher than \$20.

Dell shareholders are scheduled to vote on the offers tomorrow. While CEO Dell and Silver Lake consider their offer best and final, according to people familiar with the situation, the special committee of Dell’s board hasn’t been formally told as much by the buyers, and believes the group has room to raise the offer, another person said. The committee is contemplating delaying the shareholder vote by about a week to seek a higher bid or more time to win support for the deal, that person said.

‘My Worry’

“If Dell raises -- my worry is if he does raise, that some of the big institutions might go over to him,” Icahn said. “I’m really happy he didn’t, but we’ll see what happens.”

Dell shares rose 1.1 percent today to \$12.88 at the close in New York, giving the Round Rock, Texas-based company a market capitalization of about \$22.6 billion.

Icahn and Southeastern Asset Management Inc., which holds a 3.98 percent Dell stake, urged the board not to postpone the vote in an open letter to shareholders today.

Separately, T. Rowe Price Group Inc., which holds 4.1 percent, reiterated its opposition to the Dell-Silver Lake offer earlier this week, saying the buyout doesn’t “reflect the value of Dell.” To succeed, the buyout needs to win approval from a majority of holders excluding Michael Dell, who has about a 16 percent stake.

Investors opposed to the transaction own more than 20 percent of Dell shares, according to a report last week from shareholder adviser Glass Lewis & Co., which is backing Dell’s bid with Silver Lake. Opponents may also include Harris Associates LP, Yacktman Asset Management Co. and Pzena Investment Management Inc., according to the report.

“I believe this will go to a proxy fight, and I think I can win that proxy fight,” Icahn said. “I would like to own the company,” Icahn said. “The most money I’ve ever made is when we control these companies, when we get into them.”

Source: Bloomberg, 18 July 2013

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6. HEDGE FUND ALGEBRIS OFFERING COCOS ON JGB EXIT BET: JAPAN CREDIT

Algebris Investments (UK) LLP is betting that the Bank of Japan's unprecedented stimulus will prompt investors to sell government debt and buy securities that offer about 28 times the yield.

The U.K. manager is seeking to raise an extra \$1 billion from Japanese investors over the next two years for a hedge fund that buys contingent convertible bonds, or CoCos, said Chief Executive Officer Davide Serra. It targets paying an annual 8 percent yield for the next 5 years by investing in such notes issued by the world's biggest banks, Serra said. Japan's five-year sovereign notes yielded 0.29 percent earlier today, compared with 1.324 percent for U.S. Treasuries.

BOJ Governor Haruhiko Kuroda's push to achieve 2 percent inflation within two years will probably send Japan's institutional investors on a search for higher-yielding alternatives, according to Daiwa Institute of Research Ltd. The Algebris Coco Credit Fund, which invests in securities that banks use to bolster their capital because of their equity characteristics, has returned 4 percent this year through July 17. That compares with a 0.72 percent gain for Japanese sovereign debt, Bank of America Merrill Lynch data show.

"Kuroda has shown that he's extremely willing and able to implement policies to end deflation, which means a fundamental shift in the entire investing landscape in Japan," Ivan Vatchkov, the chief investment officer of Algebris's Asian unit, said in a telephone interview. "The days of just going long on JGBs in the midst of deflation are over."

JGB Escape

Of the total 80 trillion yen (\$794 billion) managed by Japanese pensions, about 2 trillion yen to 3 trillion yen could flow into assets including hedge funds in the fiscal year to March 2014, said Yasuo Sugeno, a senior economist at Daiwa Institute of Research's London Research Center.

"The fact that the government is determined to lead the economy to inflation creates an investment opportunity after two decades of deflation," Sugeno said in a telephone interview from London. "Banks that are long-term investors would want the capital gain. Most institutions that are issuing CoCos are all blue chips, so given the spread they are offering, it's quite attractive."

The Algebris CoCo Credit Fund returned 56 percent in 2012, making it the fourth-best performer globally among hedge funds with more than \$100 million in assets, according to data compiled by Bloomberg. CoCos, which convert to equity or are written off once an issuer's capital ratios fall below a preset level, are part of the London-based company's around \$1.3 billion in assets under management.

Biggest Investments

Among the biggest investments in June were the hybrid securities of western banks including Lloyds Banking Group Plc, Banco Santander SA and Credit Suisse Group AG, according to a letter sent to investors.

Japan's five-year bond yield fell to a record low of 0.095 percent on March 4, a month before the BOJ unveiled its plan to double monthly bond purchases to more than 7 trillion yen.

JGBs handed investors a 1.75 percent loss last quarter, the worst return since the July-September period in 2003, according to Bank of America Merrill Lynch index data. That compares with a 0.37 percent drop for the country's corporate bonds, while company debt worldwide lost 2.38 percent.

Denso Offering

Elsewhere in Japan's credit markets, Denso Corp. sold yesterday 30 billion yen of 0.352 percent five-year bonds paying a 7 basis-point yield premium over similar-maturity government debt, data compiled by Bloomberg show. The supplier of

components to Toyota Motor Corp. last tapped the market in June 2011, offering 50 billion yen of 0.548 percent notes due June 2016 at an 11 basis-point spread.

The yen strengthened 0.13 percent to 100.32 against the dollar as of 10:32 a.m. in Tokyo today. It has dropped 22 percent in the past 12 months.

Five-year credit-default swaps to insure Japan's sovereign notes fell to 62 basis points yesterday, the fifth straight day of declines and the lowest level since May 15, according to data provider CMA. The gauge is down 15 basis points since June 30, on track for its biggest monthly drop since March 2012.

Japanese banks reduced their holdings of the nation's sovereign debt by 0.9 percent to 159 trillion yen in the fiscal year ended March 31, the first decrease since 2007, according to BOJ data. Households reduced their ownership of the bonds 12.5 percent to 24 trillion yen, while foreign ownership increased

6.5 percent to 82 trillion yen.

Diversification Demand

The country's financial institutions are exploring alternative investments to meet demand from local investors seeking to diversify away from JGBs.

Nomura Holdings Inc., Japan's biggest brokerage, became the country's first issuer of CoCos in December 2011, raising 170 billion yen in a two-tranche offering. The sale comprised 154.3 billion yen of the notes marketed mainly to individual investors, while 15.7 billion yen went to institutions.

The yield premium versus the yen swap rate on the 15.7 billion yen portion of the 2.24 percent CoCo debt due December 2021 fell to 111 basis points yesterday, from 170 at the time of issue, according to data compiled by Bloomberg.

Mizuho Financial Group Inc., Japan's third-largest bank by market value, introduced a currency-hedged fund that will invest in real estate investment trusts in developed countries overseas in March, said Akihiko Kawazoe, vice president of the lender's asset management coordination division.

"With the major shift by the BOJ in its monetary policy, Japanese financial institutions are faced with the need to lower their JGB holdings and rebalance their portfolios," Kawazoe said. "We're hoping that this could be an alternative to JGBs as an investment with lower risk and stable income gains."

Source: Bloomberg, 19 July 2013

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7. IDENTIFYING THE RIGHT STRATEGIES IS CRITICAL

The key to offering a robust UCITS platform to support hedge fund strategies is making sure that what is being offered is suitable for the specific clients being targeted, according to Ian Swallow (pictured), Head of UCITS Management at Man.

Over the last 10 years there has been a huge shift in market regulation. As hedge fund managers have moved into the UCITS space, so European regulators have been quick to increase the level of scrutiny on new launches. Put simply, the barriers to entry for launching an alternative UCITS fund are high. If you lack the ability to demonstrate a clear understanding of which strategies should best be targeted to UCITS investors, and to then work effectively with regulators to bring them to market, it is unlikely you will succeed.

With approximately 40 live funds spanning Ireland, Luxembourg and the UK, and over USD9billion in AuM (through end of May 2013), Man has built a formidable platform to support its clients looking for UCITS regulated products. But as Swallow emphasises, the approach has not been to simply shoehorn existing Cayman hedge fund strategies into a UCITS wrapper and hope for the best. A careful, measured approach is paramount.

"We're not here to try and leverage off successful offshore hedge fund strategies, give it the same name in a UCITS format and try and sell it. We won't compromise our investment strategy just to fit it into a UCITS wrapper," says Swallow.

"We only create UCITS funds in strategies that are best suited to work under UCITS guidelines. For example, we wouldn't look to package some of our credit strategies in a UCITS format as we wouldn't be able to provide the required liquidity terms; it's not right for that kind of investment. So we need to make sure that the funds we are selling are the right ones."

At Man, UCITS funds have largely enjoyed great success, precisely because they have delivered on performance, and attracted investor inflows: a virtuous circle. Take the UCITS version of the GLG European Long-Short strategy. This has now soft closed with more than USD1billion in AuM as at the end of May 2013.

"Performance creates investor demand. Another in which we've seen really strong investor inflows is our GLG Japan CoreAlpha strategy," confirms Swallow. A long-only strategy managed by Stephen Harker, it is currently up +24.49 per cent YTD.

Also key to Man's success is its ability to leverage off years of structuring experience.

"We've onboarded funds spanning a range of assets, we've got good relationships with both legal counsel and the regulators themselves in Luxembourg, Ireland and the UK.

"This enables us to have more open conversations with them. We can explain the various risks involved in a proposed strategy and how we intend to manage those risks. It's not about presenting something to the regulator and them saying yes or no, it's more of a dialogue. We know the process of onboarding new funds, and we know how to explain things in a way that regulators understand."

This expertise has helped Man successfully launch two UCITS-compliant managed futures funds for its AHL team, cognisant of the fact that both funds will readily comply with ESMA's new guidelines on index creation and methodology.

"Fundamentally, to be able to offer useful, creative and successful alternative investment strategies within a UCITS framework, you need significant product structuring experience and resources," confirms Swallow.

Source: Hedgeweek, 15 July 2013

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8. ALTERNATIVE INVESTMENTS PROVIDE FAVOURABLE RETURNS AND DIVERSIFICATION TO US P/C PORTFOLIOS, SAYS FITCH

US property/casualty (P/C) insurers invest in alternative and other less traditional asset classes, including hedge funds and private equity investments, in an effort to gain portfolio diversification and enhance investment returns, according to a report by Fitch Ratings.

At year-end 2012, alternative investments represented eight per cent of P/C industry invested assets, compared with approximately 70 per cent fixed income securities, and 14 per cent common equities.

In the report, Fitch reviewed the P/C industry's investments in alternative and other invested assets at year-end 2012, compiling information from Schedule BA of US statutory financial statements on 50 P/C groups with the largest holdings of these asset classes.

Analysing industry long run statutory total investment returns for different asset classes reveals that alternative investments generated significantly higher returns with lower volatility compared with unaffiliated common equities for the period 2008-2012 and 1996-2012.

With portfolio yields declining in a period of extended low interest rates, more questions arise whether insurers will increase the allocation to riskier asset classes in an effort to boost returns. Fitch's analysis reveals that growth in unaffiliated alternative investments has been relatively modest over the last several years.

P/C insurers' interest in alternative assets is tempered by generally lower liquidity relative to publicly traded securities and higher statutory risk based capital requirements relative to common equity holdings. Going forward, the industry's holdings in alternative assets are likely to increase moderately due to market appreciation and existing unfunded commitments.

Source: Hedgeweek, 18 July 2013

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9. SUNOFIA TO LAUNCH MARKET NEUTRAL STRATEGY

Sunofia Capital Management, an asset management firm specialising in systematic strategies, plans to launch a market neutral strategy.

The strategy will initially invest in European and Japanese liquid equities and will subsequently add liquid North American and global stocks.

The strategy will be managed by Dr Moustapha Awada who has over 17 years of trading, portfolio and risk management experience. Awada has an investment record dating back to 2005 when he was managing director and global head of the multi-asset systematic trading group at Dresdner Bank. Sunofia's quantitative models have been developed by Awada over many years and market cycles, supported by his lengthy track record.

"We are very excited to work with Dr Awada whom I have known for many years," says Pulse managing partner Ibrahim Gharghour. "We believe Sunofia's approach to investing is highly differentiated by its alpha generating ability and robust risk management processes."

Pulse Capital Partners partners with next generation hedge fund managers to institutionalise and accelerate their growth and will be working very closely with Sunofia to grow and support its investor base.

The core strategy at Sunofia is built on a statistical arbitrage framework, trading high frequency signals via mean reversion and momentum-driven strategies. The investment process aims to provide investors with high risk-adjusted returns with low volatility product offering, driven by sophisticated models that regularly adapt to changing market conditions.

"We have developed and enhanced Sunofia's models over the last 15 years. What distinguishes Sunofia from our peers in the market are our proprietary algorithms, which have proven time and time again the consistency of our performance not only in normal but also in distressed market conditions," says Awada. "We believe that our strategy offers investors a differentiated source of alpha generation."

Source: Hedgeweek, 17 July 2013

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10. CORDIUM TO ASSIST HEDGE FUNDS ENTERING MUTUAL FUND SPACE

Hedge fund consultant Cordium (formerly HedgeOp Compliance and The IMS Group) has launched an offering that will assist hedge funds branching out into the highly regulated mutual fund space.

Cordium's Investment Company Compliance Services will assist mutual fund CIOs in operating under their Rule 38a-1 compliance program. The division is headed by Cordium VP Peter Guarino.

Cordium's Investment Company Compliance Services include: assisting the CCO in the administration of the fund's Rule 38a-1 review, providing ongoing administration of the fund's compliance policies and procedures and reviewing the fund's service providers and their compliance programs. The services also provide transactional and forensic testing of the fund's compliance program as well as a clearly written Rule 38a-1 annual report or quarterly updates, so the board can easily understand the compliance information presented to them.

Said Cordium US CEO Bill Mulligan in a statement: "Hedge fund advisers are looking to offer alternative mutual funds as investors seek access to innovative strategies that offer diversification to their portfolios. Hedge fund managers entering this space will need to enhance and expand their compliance policies to address the specific requirements they must meet as mutual fund providers. It's a natural development of our existing offerings at Cordium for us to broaden into this space.

"Peter recently joined Cordium to lead our Investment Company Compliance Services division, bringing with him nearly 30 years of experience as a 40 Act attorney and CCO, making him the perfect match to spearhead this new initiative for us."

Source: Finalternatives, 17 July 2013

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