THE SHORT VIEW

BY
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Ever since institutional investors began pouring capital into hedge funds in the early 2000s, they have been looking for cheaper alternatives.

The trouble is, investors want the things hedge funds promise to offer: diversification, alpha and risk mitigation. But two things have been true over the past two decades: investors don't want to pay 2/20 for those things, and hedge funds haven't always provided them.

Enter alternative risk premia, the latest attempt to tap the benefits of hedge funds without actually having to invest in them. ARP works on the premise that, beyond skill, some of what makes up hedge fund returns is exposure to factors like value, quality, carry and momentum.

Whether the ARP industry sees sustained growth depends on how well managers identify the right risk exposures

ARP products attempt to boil those exposures down to a set of rules that can be applied systematically. It's like an index, but ARP isn't passively tracking anything; rather, it's creating direct exposure to the risk factors that generate alpha.

Investors get full transparency and low fees. According to a recent study from MJ Hudson Allenbridge, ARP managers reported average fixed management fees for institutional share classes of 0.8%. Only 15% of managers reported charging performance fees, typically around 10% or 15%.

Performance last year suffered – the average fund lost 7.5% – although investors were unfazed, with nearly half of managers reporting AuM growth of better than 20% in 2018.

The ARP industry remains small. Whether it sees sustained growth depends on how well managers identify the right risk exposures. The jury is still out on whether investors will ever be able capture the essence of hedge funds in any product that isn't actually a hedge fund.

INSIDE HEDGE

Draycliffe tune-up for classic car hedgies

With many hedgies either owning, coveting or claiming to own classic cars, Draycliffe consultancy founder Clive Snowdon took a novel approach to advertising his services at the London Classic Car Show on 14-17 February.

Held at the ExCel centre, a key feature of the show is the Grand Avenue – an indoor racetrack-style runway where drivers sport their classic cars for avid motoring fans.

Adorning the racetrack tyrewalls was a unique banner, advertising to any hedge fund managers in the audience that their man Snowdon is ready to delve under the hood of their business at a moment's notice.

A classic car owner himself, he has for several years offered a "hedge fund tune-up", with the line "Can you risk sitting in front of investors if you haven't lifted the hood?".

Just as a car needs careful preparation, so too do hedge funds before they perform the essential beauty parade for investors, Snowdon says.

He insists that all too many hedge fund managers are entering the market in search of institutional money without ensuring that their whole offering is fit for purpose.

Whether or not any hedge fund managers at the classic car show took his advice remains to be seen, but this *Inside Hedge* reporter suspects that it would be a wheelie bad idea to ignore such advice.

Money saving tip: a DIY download of OM docs?

Emerging managers are typically lean businesses, where assets are small, staff wear multiple hats, and working hours probably follow a get-it-done-at-all-costs type of model.

But during one panel discussion at a recent *HFM* ops summit, focused on providing cash-saving advice to start-ups, the founder of a hedge fund hosting platform seemed to suggest that legal documentation such as offering memorandums could be downloaded from the internet.

The lawyer sitting next to that speaker almost fell of their chair, perhaps panicked by the potential loss of fees.

As well as potential business risks and legal issues, downloading any old OM template might see hedge funds unwittingly including small print from other, unrelated businesses – a pizza delivery company, for example.

While DIY legal documentation was quickly dismissed by the panel, they did agree that in certain, non-client facing areas, there was nothing wrong with going for a cheaper, non-brand name service provider.