



The **Alternative Investor**

Performance

News

Trends

Regulatory updates

**Running
more
effective
funds in
today's
markets**

This month's features focus on building better funds for today's environment. To elaborate, we have AIMA's Tom Kehoe writing about the takeup and value of GenAI. Marex's Lawrence Obertelli focuses on emerging managers and how they can best capture investor interest. Centralis's Jon Hanifan examines scaling up a fund and the required changes. MUFG's Daniel Trentacosta looks at the value of working with trusted partners to strengthen client services and technology. We close the features with Kayenta's Mark Toone writing on the evolution of treasury management from a support function to a core strategic element within a fund. In this month's Letter from America, Mark Kollar looks at a change for the better in attitudes to private credit.



Headwinds weigh on hedge fund performances

Many of the same macro forces that impacted September rolled into October, with war and election concerns being the main drivers of global markets. A definite air of uncertainty was reflected in the Vix closing the month +36.5% at 23.2 (see [market view](#)). In such an environment, hedge funds found the going tough, with only Relative Value showing a positive number, and by close, the HFRI Fund Weighted Composite was -0.7%.

Despite equity markets holding up reasonably well, the HFRI Equity Hedge (Total) Index was -0.7%, dragged down by Quantitative Directional, -2.0% and Fundamental Value, -0.4%. There were, however, a few (very few) good sub-strategies within the Equities bucket, with Market Neutral +2.0%, Technology +0.9% and Energy/ Basic Materials +0.8%.

Event-driven managers, likewise, struggled in October, with the Index falling -0.4% despite Credit Arbitrage being up +3.5%. The worst-performing sub-strategy by far was Activist, -2.6%, followed by Special Situations, -0.4%.

Macro managers largely had a torrid month, with the HFRI Macro (Total) Index -2.0%. The Systematic managers led these losses, with the Systematic Diversified Index -3.3%. The Trend Following Directional managers followed a similar path, with the Index -2.7%. Discretionary Thematic managers, however, bucked the trend by creeping into positive territory and closing the month +0.2%.

The one ray of sunshine was in Relative Value, with the HFRI Relative Value (Total) Index +0.6%. All sub-strategies, apart from Yield Alternatives, were showing green for the month. The best performing was the Fixed Income Sovereign Index, +1.0%, followed by Fixed Income Convertible Arbitrage, +0.6%.

Most regions were in the red through October, with Asia the worst performing, -1.5%. The only three regions in positive territory were MENA +1.3%, followed by India +1.0 and North America +0.2%.

\$221bn

BlackRock Q3 total net inflows

Source: BlackRock

\$50bn

KKR partnership with ECP

Source: KKR

Millennium looks to the future

One manager who rarely puts a foot out of place is Izzy Englander's Millennium Management that has just added \$10 billion of new long-term capital to its armoury, which will be used to draw down over time when opportunities arise. According to reports, Millennium could easily have raised double this number but decided to stick with \$10 billion.

There are other goings on at Millennium as the firm shores up its future. The most material is a potential strategic partnership with BlackRock, which would see BlackRock taking a small equity stake in the multimanager and the first time Englander has diluted his 100% holding. The other is Millennium considering launching a new fund, its first in over three decades, which will focus on less liquid assets, such as private credit.

General Catalyst's \$8bn VC fund

We may be in the midst of a venture capital fundraising lull, but General Catalyst has announced the largest new venture capital fundraise in the US for more than two years. The \$8 billion haul includes \$4.5 billion for core venture capital funds to focus on seed and growth equity, plus \$1.5 billion for its start-up strategy and \$2 billion in separately managed accounts for more specific strategic investments. Sector focus includes AI, defence and intelligence, climate and energy, industrials, healthcare and fintech. According to the Financial Times, you have to go back to March 2022 for a larger venture capital fundraise, when Tiger Global launched a \$12.7 billion venture fund.

Adam Street oversubscribed

Another manager showing that venture capital fundraising is not impossible is Adam Street Partners, which raised \$1.2 billion for its oversubscribed Venture Innovation Fund IV Program. Investments include secondaries and direct investments. According to Adam Street, fund LPs included leading institutional investors, foundations, family offices and wealth platforms from three continents.

LGT's \$7bn secondaries fund

In contrast to the wider world of VC fundraising, interest in secondary investments shows little sign of abating, with LGT Capital Partners the latest manager to raise a multi-billion dollar secondaries fund, with a \$7 billion fundraise for Crown Global Secondaries VI. This is above the targeted \$6 billion. The fund includes a diversified portfolio of high-conviction manager positions across buyouts, growth equity, and venture capital, with a focus on development markets and opportunistic emerging markets. LGT has invested in secondaries for more than 20 years and, to date, has completed more than 430 transactions.

Upcoming Events

20 November 2024
Pension Bridge: Private Markets Europe

20 November 2024
19th North American Family Office Forum

21 November 2024
Seventh Vienna Impact Investment Forum

25 November 2024
Credit Deal Catalyst

26 November 2024
ALFI

Click [here](#) to see all the listings

UPDATES (cont.)

Apollo's creed

Apollo's third quarter numbers came in ahead of analyst forecasts, with profits up 12%, which saw the share price pop 5%.

Growth largely came from its asset management and retirement businesses, taking firm-wide assets to \$733 billion.

The firm has made it clear that deal origination is a key point of focus, which it achieved, with an impressive \$62 billion coming in across the business.

Opening-up access to secondaries

Demonstrating the importance of innovation and being able to offer a broad range of products to investors, Apollo has announced two evergreen secondary private market funds.

These are Apollo S3 Private Markets Fund and Apollo S3 Private Markets Lux, which are targeting US and European accredited investors and opens up access to diversified

portfolios of multi-asset secondary investments across private markets.

Apollo's position in secondaries is impressive, with the S3 team sourcing over \$160 billion in these types of secondary transactions over the past year.

KKR impresses

There were some impressive quarterly numbers in the KKR quarterly results, with record fee revenue of \$1 billion, driven by bumper management and capital market transaction fees.

During the quarter, the firm raised \$23.9 billion of new capital, taking the year-to-date figure to \$38 billion, with more than \$20 billion going to the firm's Real Assets, as well as Credit and Liquid strategies.

The firm invested \$9 billion during the period,

but this is a drop in the ocean against its uncalled capital, which currently stands at \$108 billion.

The top performing returns for the quarter came from the KKR infrastructure portfolio, followed by more traditional private equity portfolios. At the end of the quarter, KKR's AUM stood at \$624 billion, a healthy 18% increase year-over-year, of which carry eligible AUM totals \$306 billion.

Blackstone results tops estimates

Similar to KKR and Apollo, Blackstone's third-quarter results came in at the top of analyst estimates, with strong performance, particularly in corporate private equity.

For the quarter, the firm saw inflows of \$40.5 billion, with the lion's share, \$21.4 billion, heading to Credit and

Insurance, including \$8.9 billion for Global Direct Lending. The fifth opportunistic Private Credit strategy also saw \$2.2 billion of inflows during the quarter, taking total capital commitments to \$2.4 billion.

Today, the firm's AUM stands at \$1,107 billion, up 10% year-over-year.

During the period, Blackstone deployed \$34.1 billion but is still sitting on a mammoth \$171.6 billion of uncommitted capital, of which \$75.9 billion is set for private equity and \$55.1 billion real estate.

UPDATES (cont.)

5C officially live

Earlier this year, we wrote about former senior Goldman Sachs heavyweight partners Tom Connolly and Michael Koester fundraising for a new private credit fund, 5C Investment Partners. After 14 months, the duo have officially launched and started investing, and in the process raised \$1.6 billion, including leverage. Backers include Michael Dell's investment vehicle, DFO Management.

Rise of the super deals

We appear to be entering a new era of super funds and deals as large managers team up with other powerful and important strategic partners.

In September, BlackRock launched its 'groundbreaking' \$30 billion AI-focused fund alongside Microsoft and others. Then, in October, KKR announced a \$50 billion partnership with Energy Capital Partners, the largest private owner of power generation and renewables in the US.

The KKR/ ECP partnership is focused on developing data centres and power generation and transmission infrastructure for AI and cloud computing. KKR brings the digital infrastructure, power and energy value chain knowledge, while ECP adds its huge electrification and power and renewable asset base.

Entering structured finance

According to pension documents reported in the Wall Street Journal, Brookfield is aiming to raise \$1 billion for an infrastructure finance fund, pledging \$250 million of its own funds. The strategy is targeting an IRR of 12%. This

may not be the biggest fund in Brookfield's world, which today encompasses around \$1 trillion in assets, but it is their first foray into structured finance and joins other big players expanding into this fast-growing space.



Mubadala signs MOU with Sevia

Mubadala Capital, the \$23 billion alternative asset management business of Abu Dhabi's sovereign fund, Mubadala Investment Company, is becoming an ever more important player in the alternatives market.

Mubadala has made plenty of co-investments with leading managers but most recently, Mubadala has gone a step further with an MOU with Sevia Holdings, Tamasek's \$51 billion

asset management firm, to explore co-investments and other strategic opportunities.

The move comes shortly after Mubadala successfully closed its fourth private equity fund, MIC Capital Partners IV ("Fund IV"), securing total commitments of \$3.1 billion and surpassing the initial target size of \$2 billion. This fund will focus on middle-market companies in various

sectors, including media, sports and entertainment, consumer and food services, financial services and business services. LPs in the fund included US pension funds, university endowments, insurance plans, sovereign wealth funds, as well as other asset managers and family offices across key markets in North America, Europe, the Middle East and Asia.



UPDATES (cont.)

Investors under-allocated to private markets

According to the Goldman Sachs Private Market Diagnostics survey, investors have shifted their views from “cautious to courageous” in terms of new strategies, investment approaches and macro views.

Of the 190 LPs surveyed, which

included asset managers and private pension funds, there is increased appetite for private market investments, new liquid solutions and more co-investment opportunities, particularly from some of the larger LPs.

The survey also found that investors

are growing their private market investments but still remains under-allocated in this space, particularly to private credit, followed by private equity and real estate, although the findings also found private equity to be the most over-allocated of all investments.

Endowment alts underperform

The Harvard endowment and other large endowments have had a second year of underperformance against rebounding US equity markets, with investments in private equity, venture capital and hedge funds all weighing down their portfolio returns.

N.P. ‘Narv’ Narvekar, the CEO of Harvard Management Company, which manages the Harvard endowment, wrote, “For the second year in a row, private equity returns lagged those of public equity markets.” He added that strong manager selection was,

however, fundamental to driving returns in hedge funds and public market investments.

But it is not all gloom at the Harvard endowment that is made up of 39% private equity, 32% hedge funds, 14% public equities, 5% real estate, 5% bonds/ TIPS and 3% other real assets, for it still successfully outperformed its targeted 8% return, with a 9.6% return for fiscal year 2024.

Alts to hit \$30tn

According to Preqin research, the private equity sector is forecast to double in size by 2029, from \$5.8 trillion today to \$12 trillion. This comes from their [Future of Alternatives 2029](#) report, which broadly forecasts the total AUM for global alternatives to hit \$29.2 trillion by 2029 and break the \$30 trillion marker by 2030. Private equity performance will also improve to 12% from the end of 2023 to 2029, and distressed debt will be even higher, while late-stage and European venture capital is expected to underperform.



UPDATES (cont.)

Coatue's new AI fund

Coatue Management is aiming to raise \$1 billion for its latest fund, which will invest in artificial intelligence and tech innovation. This story comes from Bloomberg, which writes that the bulk of the investment will come from institutions and a small amount from individuals through a Raymond James and Associates agreement. It is not the first time that Coatue has linked-up with a third-party to raise private wealth assets, having had a similar agreement with JPMorgan Securities in 2017 for its wealth clients. Today, Coatue has active positions in more than 200 tech companies.

Ares doubles AUM

Ares Management has announced that it is buying the international arm of GLP Capital Management. Upon completion, the \$3.7 billion acquisition will make Ares Real Estate one of the largest vertically integrated platforms in the world and almost double its AUM to \$96 billion across North America, Europe, and Latin America. The move will add scale and capabilities to Ares in Europe and Asian markets, particularly in Japan, where GLP runs one of the largest publicly listed Japan Real Estate Investment Trusts and a large institutional perpetual vehicle.

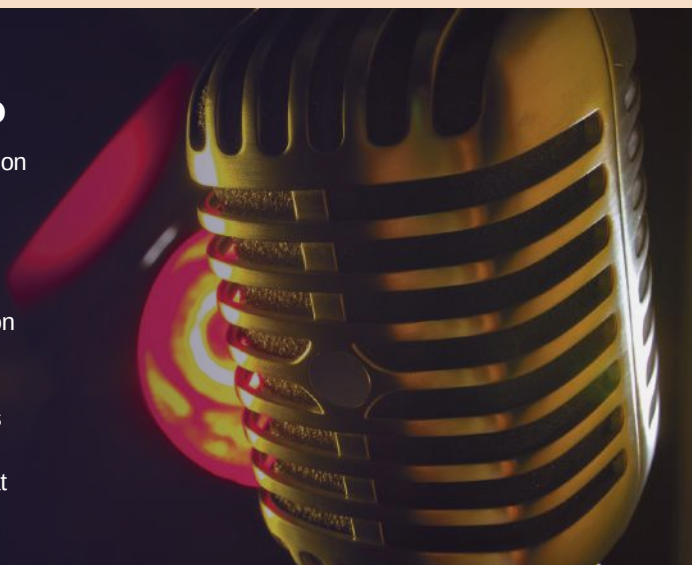
\$2bn crypto exposure

Brevan Howard has made no secret of its ambitions in the digital space, although information is less forthcoming about its investment exposure. However speaking at the AIM conference in Dubai, Ryan Taylor, Head of Compliance at Brevan Howard, opened-up that of the firm's \$35 billion AUM, around \$2 billion is in crypto, with a significant portion of its crypto trading conducted from the UAE.



Elliott fights through audio

We always see Elliott as an innovator in the agitation game, with a well-thumbed activism playbook of letters, presentations, websites and the use of the media to make the best case. Elliott's latest move turns to using podcasts, with Southwest Airlines subject to a 20-minute podcast available on Apple, Spotify and YouTube, which it announced on PR Newswire, and can be found at www.strongersouthwest.com. The first episode features the former CEO of WestJet discussing the high-value potential that he believes can be delivered at Southwest.



LETTER FROM AMERICA**prosek**

Not so Fragile: Private Credit Getting Some Credit for Reducing Systemic Risk

The size of the private credit market seems to know no bounds. Recent calculations estimate that non-bank financial institutions have lent more than \$2.1 trillion to corporate borrowers just last year alone in assets and committed capital.

For borrowers, these loans provide an alternative to traditional financing with less stringent requirements. The benefit for investors is more attractive returns than they would get from other fixed-income products.

A vast majority of the volume is in the US, where a company's financing needs may have been either too large or too small for commercial banks, so that in a Goldilocks turn of credit events, private debt became "just right."

And as no surprise, this phenomenon is not always just right for everyone. In an April blog post, this year the IMF charged that the private credit market "warrants closer watch" and the rapid growth could "heighten financial vulnerabilities given its limited oversight."

The arguments from the IMF identify a number of other "fragilities" in a larger essay called "Global Financial Stability Report." These include claims that private credit borrowers "tend to be smaller and carry more debt" and thus may be more vulnerable to rising rates, and that competition puts pressure on "private credit providers to deploy capital and thereby leads to weaker underwriting standards and looser loan covenants."

All fair points to some extent and many of those so-called fragilities are echoed by other European counterparts, who call on stricter reporting requirements.

However, in recent weeks, and certainly in light of the US election results, it seems as if a slight shift is taking place among regulators and academics that leans to a softer stance on regulation.

U.S. Securities and Exchange Commission Chair Gary Gensler, at the Bloomberg Global Regulatory Forum

in Washington, DC, last month in a speech called, "A Feature, Not a Bug: The Important Role of Capital Markets in the US," called out the resiliency of these markets and the importance of private credit.

"The non-bank sector provides important alternatives and competition to the banking sector," he said in prepared remarks. "This competition benefits investors, savers, borrowers and issuers, as well as the banks themselves."

Gensler warned that when looking at risk and fragility in finance, "it's important not to paint with a broad brush. Not every risk is the same. In fact, the financial sector is about allocating and pricing risk, not eliminating it."

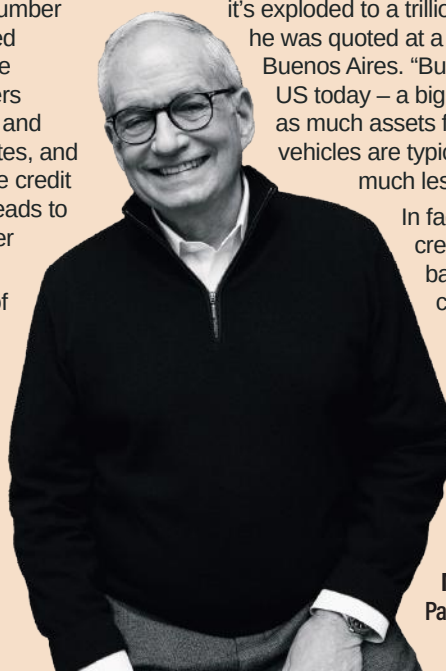
A more moderated stance it appears from a regulator than some may think. But Neel Kashkari, the president of the Federal Reserve Bank of Minneapolis, also noted that private credit may in fact reduce systemic risk in the US financial system.

"It's scary at some level, because it's exploded to a trillion-dollar-plus market fairly quickly," he was quoted at a Bloomberg story last month out of Buenos Aires. "But as I've examined it, a bank in the US today – a big bank – is levered 10 to one times as much assets for their equity. These private credit vehicles are typically levered one to one, so it's much less leverage."

In fact, Kashkari believes that private credit vehicles may be lower risk than banks because they typically lock in capital for longer periods of time.

It's probably a safe market bet that it won't be a longer period of time to see the rhetoric around regulation and reporting for private credit to become even more accommodating to evolve from fragility to bug to resilient feature in financing.

“It's probably a safe market bet that it won't be a longer period of time to see the rhetoric around regulation and reporting for private credit to become even more accommodating...”



Mark Kollar
Partner, Prosek Partners

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Personally, if you want to be an entrepreneur, set up your own fund, have a private equity fund, have a venture capital fund. One of the things I heard at Credit Suisse when I was doing my diagnostics there is that people took great pride in how entrepreneurial Credit Suisse was, and I'm thinking that's not really our job. Our job is to make sure that we service entrepreneurs.

Colm Kelleher, Chairman of UBS



GUEST ARTICLES

How hedge funds are getting in pole position with Gen AI

Tom Kehoe, Managing Director, Global Head of Research and Communications, AIMA

For many, our daily lives at work have been truly transformed in recent years since the release of Generative (Gen) AI tools for public use. These tools are quickly being integrated into every aspect of our personal and professional lives, with many industries expecting to achieve major efficiencies and advances from their adoption. For hedge fund managers, this is no different.

AIMA latest market research into this emerging theme found that 86% of hedge fund managers surveyed grant their staff access to various Gen AI tools to bolster their work. This open-arm embrace of the technology is for good reason. Hedge fund managers surveyed overwhelmingly pointed to the time and cost savings the technology offers. The report [‘Getting in pole position: How hedge funds are leveraging Gen AI to get ahead’](#) reveals that hedge fund managers are embracing Gen AI for its ability to streamline tasks such as marketing, investor

communications, and administrative duties. This enthusiasm spans both large and small firms, demonstrating the sheer value Gen AI provides across different operational scales. In particular, tools just about everyone is probably familiar with like ChatGPT, Bing, and Bard are among the most popular Gen AI applications among hedge funds, favoured for their capabilities in text generation, document analysis, and even coding assistance. For hedge fund managers, where time is money, this integration is seen as a vital step toward enhancing efficiency and reducing operational costs.

However, the North Star for any technology hedge fund managers decide to use will be how it can contribute directly and indirectly to the search for additional alpha, and, according to respondents, Gen AI still has a long path ahead. Only around one in four respondents believe Gen AI can enhance investment decisions, and even fewer think it can support portfolio optimisation, at least in its current form. This is



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...the North Star for any technology hedge fund managers decide to use will be how [GenAI] can contribute directly and indirectly to the search for additional alpha...

Tom Kehoe, AIMA



GUEST ARTICLES (cont.)

largely because its outputs are based on existing, often publicly available, data. Yet, early adopters are experimenting with Gen AI for thematic stock baskets, and even using algorithms to analyse alternative datasets for portfolio optimisation.

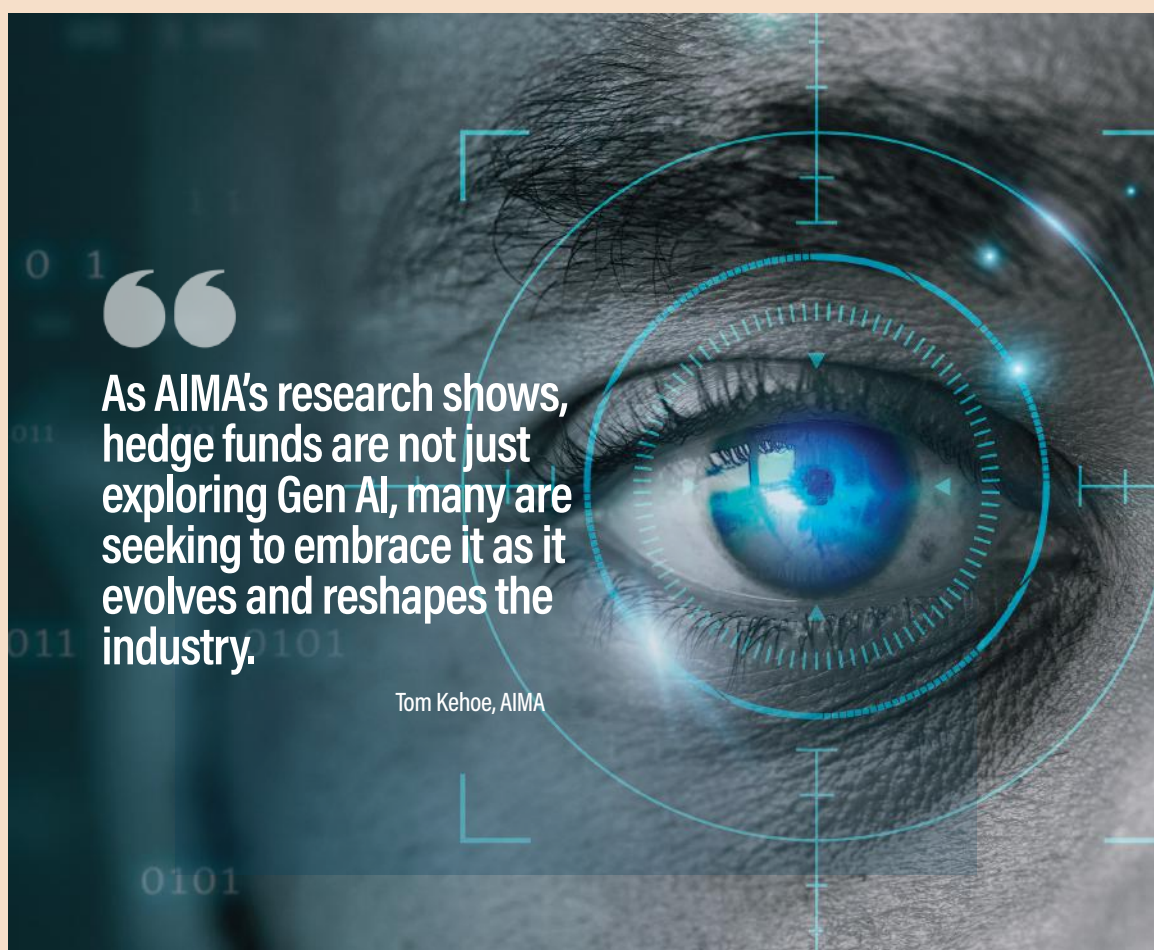
Away from the front office, the rapid progress in Gen AI tools has spurred hedge fund managers to explore how they can significantly optimise operational functions and IT capabilities including coding. Automating routine programming tasks will allow developers to focus on more complex, value-added activities, enhancing productivity and innovation. This potential has led many hedge fund managers to invest heavily in building proprietary Gen AI platforms, such as Man Group's 'ManGPT', which integrates ChatGPT securely within the firm's operations to create bespoke capabilities and mitigate risks like data leakage.

Despite the rapid advancements, there are still challenges to broader adoption. Data security and privacy concerns rank high among managers, along with the need for staff training. The report found that while only around 10% of respondents have already received training, nearly half of the larger hedge fund managers plan to offer it within the next

six months. This signals an increasing recognition among major firms with the resources of the importance of upskilling staff to harness Gen AI's full potential responsibly. This divergence in approach to Gen AI will soon open up a new front in the war for talent that all but the largest multi-managers must grapple with from now on.

Hedge fund managers are driven by the pursuit of any legitimate advantage over their competitors. If they believe that Gen AI can enhance efficiency, streamline operations, and deliver stronger returns for investors, they will undoubtedly adopt it. As AIMA's research shows, hedge funds are not just exploring Gen AI, many are seeking to embrace it as it evolves and reshapes the industry. Although a pre-AI world already feels like a bygone age, the truth is the revolution of technology in this arena has just begun. AIMA will continue to monitor the adoption of Gen AI across the alternative investment industry and share its insights. Stay tuned.

Tom Kehoe, Managing Director, Global Head of Research and Communications, AIMA



GUEST ARTICLES (cont.)

How can emerging managers capture investor interest?

Lawrence Obertelli, Executive Director and Head of EMEA Prime Service Sales at Marex

Investor attitudes have changed in recent years as they navigate an increasingly complex and challenging economic landscape. Despite a more cautious approach to asset allocation, their interest remains strong for funds who can align their strategies with investor expectations and demonstrate clear value.

The recently published [Standing Strong: Emerging Manager Survey 2024](#), co-authored by the Alternative Investment Management Association (AIMA) and Marex, reveals an openness to investing in new hedge funds. The report shows that 48% of investors are willing to consider investing in funds with a track record of one year or less.

Additionally, 80% of investors surveyed are open to backing funds with less than \$100m in AUM, and the average minimum fund size that investors consider allocating to is down significantly to \$106m from \$151m reported in 2022.

Whilst the report paints a positive outlook for emerging funds, asset raising in the current climate undoubtedly remains challenging. According to the research, the average time to secure new investments has increased over the last two years from just over six months to eight months.

In this increasingly competitive market, how can emerging managers stand out to investors and compete with billion-dollar funds?

Getting noticed

First and foremost, building strong networks is paramount. Two thirds of investors questioned in the research reported that their most recent allocation source came through their personal network. This highlights just how important it is for fund managers to participate in conferences and other networking gatherings. The second source of new capital (22% according to the research) is prime broker capital introduction teams – a vital link between fund managers and potential suitable investors.

However, it is not just contacts that count. Investors are seeking a strong track record, consistent performance over time, and a strategy which aligns with their own objectives. In addition, fund managers must have a clear business plan and a strong operational framework. They need to show transparent cost structures, robust infrastructure, a stable team and reputable service providers.

There are undoubtedly challenges here. Performance history can be limited in early-stage funds – but investors need proof of performance to have confidence in the fund's future success. Whilst almost half of investors, according to the research, are satisfied by seeing performance history of one year or less and a strong track record from previous funds, around one fifth require sight of a minimum of three years'



GUEST ARTICLES (cont.)

performance. Institutional investors, such as pension funds, have different requirements to single family offices, with the former having more stringent requirements, taking longer to invest. This shows how important it is for emerging managers to align themselves with investors most suited to their history, strategy and size.

Similarly, while emerging funds often maintain cost effective operations, scaling these efficiently can be challenging, particularly with a small team and limited resources. The use of outsourcing – such as for compliance, operations, IT infrastructure and trading – can enable a fund to grow without significant capital expenditure. Securing an investor will be difficult without being able to demonstrate a strong operational framework. Concerns regarding operational due diligence, poor administration standards and lack of fund transparency is the primary reason why an investor chooses not to invest in an emerging fund, with 83% of investors stating this as their main concern.

Advantages over larger funds

Whilst it may seem daunting for emerging funds to compete against the larger, more established funds, this need not be the case. From an investor perspective, emerging funds can have significant advantages over their larger peers. They can be more

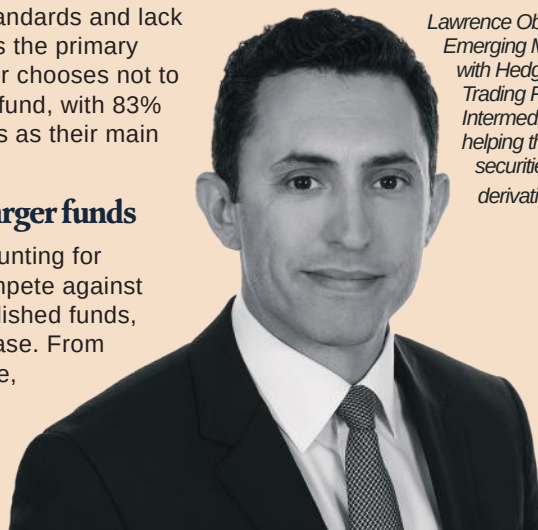
agile, can pivot their product offerings and react quickly to market opportunities. In addition, some pursue bespoke strategies or carve-outs that may not be feasible for larger funds.

Whilst larger funds may have greater economies of scale, smaller funds benefit from leaner structures and offer lower fees, making them attractive to cost-sensitive investors.

Ultimately, they can build closer, more tailored relationships with investors, often providing greater service as well as flexibility in fees or investment terms. This can appeal to those looking for a more tailored service, resulting in stronger investor loyalty.

Lawrence Obertelli, Executive Director and Head of EMEA Prime Service Sales at Marex

Lawrence Obertelli is co-author of Standing Strong: Emerging Manager Survey 2024. He has worked with Hedge Funds, Asset Managers, Proprietary Trading Firms, Family Offices, Brokers, Banks and Intermediaries of all sizes over almost two decades, helping them with every aspect of prime brokerage, securities finance, custody & clearing and listed derivatives.



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[Emerging managers] can build closer, more tailored relationships with investors, often providing greater service as well as flexibility in fees or investment terms.

Lawrence Obertelli, Marex

GUEST ARTICLES (cont.)

Taking the road from start up to scaling up

Jon Hanifan, Business Development Director, Centralis Group

For alternative fund managers, the path from starting up to scaling up involves navigating a complex landscape of regulation, tax and operational considerations. Each stage has distinct aspects that require a specific set of skills, planning and resources to ensure success.

Starting an alternative fund demands an in-depth understanding of the legal, tax and compliance framework of the chosen jurisdiction(s), as well as establishing a robust foundation for regulatory adherence.

Scaling a fund focuses on operational efficiency, advanced regulatory reporting, and managing expanding teams and service provider networks.

Both starting and scaling sit within the envelope of investor expectations (including in respect of fees and liquidity). Anything other than a “tried and trusted” fund location may not be palatable. While new jurisdictions will state their case, experienced fund managers (and their

IR teams) will know all too well that time spent talking about structure is time better spent talking about strategy.

Key challenges: starting and scaling up

When starting a fund the initial focus will be on selecting the appropriate jurisdiction, considering key factors such as regulation, location of investors and tax. An understanding of local tax implications, including VAT, capital gains tax and any double taxation treaties, may (subject to strategy) be critical, as missteps in this area can lead, for example, to tax liabilities arising long after interests in the fund have been valued.

Raising capital to start a fund can be challenging. The difficulty correlates, to an extent, with the portfolio manager’s track record and/or perceived pedigree. In terms of the former, and while investors have demonstrated a willingness to back those with a record of fewer than twelve months¹, those with good performance history will be well-advised to check that their employment or partnership terms



¹ As cited in the September 2024 report by AIMA in partnership with Marex Prime Services: [How are emerging hedge fund managers attracting capital and keeping their edge](#)



GUEST ARTICLES (cont.)

allow its use. Often track record belongs to the former business.

Meeting investor demands while maintaining efficiency can also be daunting during the start-up phase. Recently, the allocation preferences of established managers as part of their collateral management programme and fee pressures have led to start-up managers running separate accounts or funds of one over pooled investment vehicles.

Tackling start-up considerations requires early collaboration with tax and legal advisors and selecting responsive outsourced service providers from the outset. Establishing a solid operational structure, including adherence to jurisdictional requirements, is crucial to ensure long-term success.

Scaling a fund requires a shift towards greater operational efficiency and expansion, including the ability to manage increasingly complex regulatory reporting. As funds grow, they should consider their outsourced provision to maintain consistency, focus and internal headcount. Additionally, a greater attention to talent management is essential, particularly as funds expand operations to new jurisdictions or face competitors who have done so.

As already noted, the complexity of regulatory reporting intensifies as funds scale, with more frequent and detailed data requirements. To address these challenges, funds (and/or their outsourced service

providers) must invest in robust technology solutions for regulatory compliance and data management.

In summary

Navigating the journey from starting to scaling requires careful planning, a deep understanding of the regulatory landscape and a strategic approach to operational management.

While not wanting to overengineer at start-up or set an unrealistic break-even AUM in light of downward fee pressures, managers will want to make choices (including outsourced provider selection) that can grow with them and are in line with the business they aspire to be. Managers will want to run a lean operating model, outsourcing where attractive to do so, to help attract investor interest.

Both starting and scaling will require strong performance and the strategy to be in vogue with investors.

Jon Hanifan, Business Development Director, Centralis Group

Well known in the alternative asset management industry, Jon has over 20 years of UK tax and commercial experience gained across senior roles within the Big 4, industry, legal practice and the outsourcing industry. Jon has successfully advised, and lead, businesses at various stages in their respective lifecycle. Now based in New York, Jon has also previously acted as a UK director, including of industry charity Help For Children (UK) (previously Hedge Funds Care (UK)).



Jon Hanifan, Centralis Group

GUEST ARTICLES (cont.)

Outsourcing in Private Markets: How Fund Managers and Trusted Partners Are Driving Growth

Daniel Trentacosta, MD and Head of Private Markets & Change, MUFG Investor Services

Engaging a new generation of investors bringing trillions of dollars in fresh capital.

Pursuing exceptional fund performance and client service.

Honing a competitive edge to fuel new growth, achieve greater returns, and shape the future.

Those are just a few reasons for the growing relationships between fund managers in the private markets and their trusted service providers. Private markets, once almost exclusively the domain of institutional investors, are transforming rapidly. Now, high-net-worth retail investors are entering the marketplace alongside institutional investors, bringing with them new demands for service and performance. Add to that the continued evolution of regulatory disclosure and transparency requirements across global jurisdictions, and it's clear that "change" has become the one constant in the private markets.

Much of that change is being driven by the growing role of outsourcing. Throughout most of the past decade, outsourcing providers were seen primarily as fund

administrators responsible for back- or middle-office functions, including accounting, NAV calculations, basic regulatory reporting, internal controls, and compliance. Now, the strongest service providers have grown into trusted strategic partners that can quickly provide a diverse offering of solutions across the entire value chain.

The need for that support is clear and immediate: In September, Preqin estimated in its Future of Alternatives 2029 report that assets under management (AUM) in the global alternatives ecosystem will reach \$29.2 trillion in 2029, an increase from \$16.8 trillion in 2023. Private equity, the largest private capital asset class, is expected to grow to \$12 trillion AUM in 2029, up from \$5.8 trillion in 2023, with a 12.8% annualized growth rate.

As private markets expand, fund structures grow more complex and investor demands accelerate, alternative investment managers will be tapping their trusted partners regularly for tailored products and services, automated platforms, and experienced teams to become more cost effective and improve efficiency. All



“Private markets funds cannot operate in isolation—those days are over. We believe that the most successful funds will be those working with forward-thinking partners...”

Daniel Trentacosta, MUFG Investor Services

GUEST ARTICLES (cont.)

of that work is designed to ensure that fund managers have the ability to streamline operations and deliver greater value for their investors.

Building Relationships: Expertise, Experience and Flexibility

Trust is the foundation of the relationship between alternative investment managers and their outsourcing partners. For example, MUFG Investor Services' client-centric model emphasizes close interaction, listening to client needs, and understanding businesses to develop collaborative, long-term partnerships. Fund managers, often with limited resources, recognize that we already have invested time and money to build and implement secure new processes and systems to eliminate legacy technology. And we have new platforms in place to continually monitor global regulations and ensure compliance.

By taking a holistic approach, MUFG Investor Services expanded our role to deliver superior back- and middle-office solutions, as well as foreign exchange, banking and payments, and fund financing. As outsourcing increases, fund managers also are embracing the concept of co-sourcing, where our teams provide specialized service and work with a client's team or technology, as well as lift-outs. All these tools help managers to leverage expertise while maintaining control over critical functions.

Innovating with Technology

To best accommodate the significant growth of the private markets and volumes of new data, fund managers are moving away from outdated, legacy systems to innovative, automated systems.

This new technology, often provided by trusted partners, enables managers to cleanse, validate and store data in secure repositories that can be used for investor services, portfolio valuation, hedging needs, data analytics, reporting requirements across jurisdictions, and much more.

By outsourcing to trusted partners, fund managers can access cutting-edge technology without the burden of ownership, allowing them to focus on maximizing operational efficiency while minimizing vendor exposure. Trusted partners provide teams of experienced professionals across fund structures who are well-versed in managing

client systems, integrating with clients' existing tools, and implementing new technology for tasks including complex calculations of investor allocations and fees, to reconciliations. Partners often are required to provide individual, custom solutions specifically for a fund's needs.

Ensuring validated data is critical for investor and regulatory reporting, as fund managers must be confident about accuracy when submitting filings. Without clean data and automated platforms, funds with a range of strategies may have a difficult time meeting regulatory and compliance rules. Often, these requirements are not harmonized and jurisdictions have varying submission formats that are strictly enforced.

Outsourcing also enables alternative investment managers to be selective in choosing when and where to upgrade systems to address increased regulation and pricing competition. By using platforms that have been developed and tested by trusted partners, managers can avoid being tempted to deploy more technology than they need and focus on where technology will add value.

Moving into the Future

As private markets continue to expand, the relationship between fund managers and trusted partners will become more integrated through client service and technology. Private markets funds cannot operate in isolation—those days are over. We believe that the most successful funds will be those working with forward-thinking partners to develop new operating models that will rely on the strength and flexibility that outsourcing provides and enable fund managers to

focus on what has always been the primary goal: Serving their clients by increasing returns and achieving new growth.

**Daniel Trentacosta, Managing Director
and Head of Private Markets & Change,
MUFG Investor Services**



GUEST ARTICLES (cont.)

Treasury Transformation: Unlocking Hidden Value in Hedge Funds

Mark Toone, Chief Commercial Officer, Kayenta

In today's hedge fund landscape, treasury management has evolved from a support function into a core strategic element, enabling funds to reduce costs, maximise liquidity, and strengthen relationships with prime brokers. Despite its growing importance, particularly in the current interest rate environment, many managers still undervalue this function, potentially jeopardising investor returns and fund transparency.

A key challenge is the lack of consistent, normalised data from prime brokers, many of whom operate on legacy systems with disparate reporting. This creates industry-wide issues in understanding financing costs and the drivers behind them, leaving managers without a clear view of their expenses unless they have a dependable technology solution.

A robust technology solution can reveal hidden inefficiencies and convert them into measurable savings. Financing fees represent a substantial portion of fund expenses, frequently exceeding execution and research costs, yet they have historically received limited scrutiny; however,

technology now allows for deeper insights, helping funds allocate balances and adjust trading strategies for optimal efficiency.

Ensuring accurate billing further supports this effort, avoiding costly errors that can negatively impact investor returns and damage relationships with prime brokers. Automated reconciliation helps mitigate these risks, allowing managers to concentrate on strategic initiatives and operational stability. In a highly regulated environment, this level of control not only enhances investor trust but also safeguards against potential reputational damage.

Optimising financing terms by understanding prime broker needs is another key area where treasury management can drive value. Prime brokers typically favour balances that support their profitability, and by understanding these preferences hedge funds can secure more beneficial terms. The goal in this environment is to achieve a balance that allows for cost reduction without sacrificing service levels or straining partnerships.



...treasury management has evolved from a support function into a core strategic element, enabling funds to reduce costs, maximise liquidity, and strengthen relationships with prime brokers.

Mark Toone, Kayenta

GUEST ARTICLES (cont.)

Despite its clear advantages, the adoption of treasury management technology has historically been limited among hedge funds due to budget constraints, resource prioritisation, and a lack of accessible third-party solutions. However, recent advancements have made sophisticated treasury systems scalable and available to funds of all sizes.

For example, Kayenta's modular solution offers an independent accrual engine that accurately replicates each prime broker's financing methods. This ensures client-specific terms are applied correctly and that billing remains precise while enabling optimal asset allocation through predictive analytics. Additionally, the bottom-up approach provides valuable insights and comparisons on prime broker profitability and service levels, fostering a deeper understanding that informs strategic decision-making.

In today's complex financial landscape, a well-executed treasury function is essential for driving performance and resilience. Advanced technology

enhances visibility into financing relationships, improves operational efficiency, and supports informed decision-making. By leveraging these tools, managers can enhance fund performance, optimise resource allocation, navigate market complexities, and ultimately gain a competitive edge.

Mark Toone, Chief Commercial Officer, Kayenta

www.kayenta.io

Kayenta provides cloud-based treasury technology tailored for hedge fund strategies. Built on deep industry expertise, it delivers data-driven insights to optimise prime broker relationships, reduce costs, and streamline operations.



“

...the adoption of treasury management technology has historically been limited among hedge funds... recent advancements have made sophisticated treasury systems scalable and available to funds of all sizes.

Mark Toone, Kayenta

REGULATION

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**UK****FCA wins appeal in BlueCrest case**

On 2 October, the UK Court of Appeal handed down its judgment in [FCA v BlueCrest Capital Management \(UK\) LLP \[2024\] EWCA Civ 1125](#), upholding the FCA's appeal against the decision¹ of the Upper Tribunal and dismissing the cross-appeal of BlueCrest Capital Management UK LLP ("BlueCrest").

The FCA [hailed this](#) as a vindication of the FCA's power to require redress from firms.

Back in December 2021, the FCA found that BlueCrest, one of the world's largest hedge funds, failed properly to manage conflicts of interests, thus breaching the FCA's Principle 8. The regulator alleged that when acting as an investment manager, BlueCrest acted in favour of an internal fund which benefitted BlueCrest's senior partners and key staff at the expense of external investors in an external fund.

The FCA therefore issued a [Decision Notice](#) imposing a financial penalty and requiring that BlueCrest provide redress, estimated to exceed US\$ 700 million, to non-US investors in the external fund.

BlueCrest referred the case to the Upper Tribunal, inter alia, to consider the statutory conditions for imposing a redress requirement. The FCA then sought to broaden its case before the Upper Tribunal to include Principle 7, breaches regarding communications with clients, specifically that BlueCrest had provided misleading information to investors and made personnel decisions that benefitted senior managers personally.

The Upper Tribunal found that the FCA's powers had to be construed with its powers to impose consumer redress schemes, for which the conditions - establishing loss, breach of regulatory duty, causation, and civil actionability - had not been satisfied. It rejected the FCA's amended case, limiting it to the Principle 8 breaches.

The FCA therefore appealed to the Court of Appeal. In July 2024, it ruled that the FCA had the power to impose a single-firm redress scheme and rejected the Tribunal's interpretation that this power was subject to additional statutory preconditions. The Court further found that the Upper Tribunal was wrong to conclude that it lacked authority to permit amendments to the FCA's statement of case and need not be limited to the matters in the final notice.

The FCA announced: *"This has important wider implications both for the FCA's ability to secure redress for consumers and its ability to conduct litigation before the Upper Tribunal effectively."* The judgment will likely embolden the regulator to seek redress for more investors when things go wrong.

However, this story is just beginning, as the Court of Appeal's decision was made at an early stage of the Tribunal proceedings. The matter will now proceed to a full hearing, deciding whether this redress scheme will, in fact, go ahead.

¹ In *BlueCrest Capital Management (UK) LLP v FCA* [2023] [UKUT 00140 \(TCC\)](#)

Double jeopardy: FCA fine for failure to report HMRC fine

Taking umbrage at his failure to report a fine for non-payment of taxes, the FCA has [imposed](#) a financial penalty on the CEO of an FCA authorised firm.

Kristo Käärman was the CEO and director of Wise Assets UK Ltd, a firm authorised and regulated by the FCA and a director of Wise Payments Limited, an authorised electronic money institution regulated by the FCA.

Mr. Käärman had sold approximately £10 million of shares, giving rise to a capital gains tax liability of approximately £720,000. However, he failed to declare the liability or pay the tax within the prescribed time period.

He was subsequently fined approximately £365,000 by HMRC and paid the fine. His name was also added to the Defaulters List.

The FCA was then made aware of the tax issues by a

journalist asking for comment. The FCA took the view that it should have been informed about these issues because:

1. The tax issues were relevant to the FCA's assessment of Mr. Käärman's fitness and propriety - due to the size of the penalty and the potential for public censure via inclusion on the Defaulters List; and
2. This might have a significant adverse effect on the reputation of both regulated firms.

The regulator [found](#) that Mr. Käärman was in breach of Senior Manager Conduct Rule 4 which requires that senior managers disclose appropriately any information of which the FCA would reasonably expect notice. He was fined £500,000 but this was reduced to £350,000 as he agreed to resolve the matter and settle early.

REGULATION (cont.)

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Market Watch 80 – lack of transparency in ultimate beneficial owners

The Financial Conduct Authority has published [Market Watch No 80](#), the latest in its series on market conduct and transaction reporting issues.

Issue 80 considers how firms can ensure compliance with [SYSC 6.1.1R](#)¹ when dealing for overseas clients who operate aggregated accounts with no visibility of ultimate beneficial owners (“UBOs”).

Authorised firms often receive instructions to execute trades from “aggregated” accounts administered both by other FCA regulated firms, and overseas firms. Where these might facilitate anonymised trades, and FCA firms executing these trades do not know the identity of their UBO, the FCA calls them “obfuscated overseas aggregated accounts” (“OOAAs”).

The FCA has identified a potential for market abuse in leveraged equity products from aggregated accounts administered by overseas firms, especially in those jurisdictions with weaker market abuse prevention regimes.

When working with overseas regulators, the FCA identified the UBOs of particular trades and in some cases, FCA authorised firms who were unwittingly transacting, through

OOAAs, for individual UBOs whose trading accounts had previously been terminated for suspected market abuse.

Some of these opaque UBOs even had characteristics of organised crime groups, described by the FCA in [Market Watch 77](#).

FCA authorised firms are required to submit Suspicious Transaction Order Reports (“STORS”) but without knowing the UBOs’ identity, are unlikely to detect patterns of repeated suspicious trading. The aggregation of accounts may circumvent the FCA’s measures to detect and prevent suspicious trading, and where the administrators of aggregated accounts are based offshore, the UK regulator has limited powers to intervene.

The FCA recommends that firms take extra care when onboarding and trading with OOAAs, including modifying their risk frameworks and thresholds for offboarding.

The FCA reminds firms of the [SYSC6.1.1R](#) requirement and of its willingness to intervene where necessary.

¹ Implementing and maintaining adequate policies and procedures... for countering the risk that the firm might be used to further financial crime



REGULATION (cont.)

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FCA publishes results of non-financial misconduct survey

The FCA has published [key findings](#) from its culture and non-financial misconduct ("NFM") survey, which looks at the detection and handling of NFM incidents.

The survey was sent to over 1,000 regulated firms, representing around 325,000 employees in the insurance, banking and brokerage sectors, and requesting information on recorded incidents of NFM in the period 2021-2023.

The findings include:

- There has been an increase in NFM incidents, and in such incidents being reported in regulatory references;
- Bullying (26%) and discrimination (23%) were the most reported types of NFM;
- 50% of incidents were identified through reactive routes such as grievances. Formal whistleblowing was also prominent, representing 32% of total incidents at wholesale banks;

- Disciplinary or "other" actions were taken in 43% of cases, with such actions most likely for certain misconducts such as violence and intimidation; and
- Action taken following NFM rarely resulted in remuneration adjustment.

NFM is an integral part of the FCA's conduct and accountability regime, codified as the Senior Managers and Certification Regime ("SMCR"). It is relevant to a wide range of firms including asset managers falling into the "core" or the "enhanced" SMCR regime. Whilst it has historically been applied to individuals subject to fitness and propriety requirements, the FCA is looking to [clarify and strengthen](#) its expectations around NFM. This includes with respect to the Conduct Rules which cover all except ancillary staff at FCA regulated firms – and hitherto, have focussed on financial misconduct only.



SEC Division of Examinations announces 2025 priorities

The US Securities and Exchange Commission's ("SEC's") Division of Examinations ("the **Division**") announced its [2025 examination priorities](#) while highlighting the continued evolution of the SEC in response to technological innovations.

The Division releases its annual examination priorities to offer insight into its risk-based approach, highlighting areas it believes may pose potential risks to investors.

The following areas, among others, were highlighted by the Division:

- **Investment Advisers**

The Division will continue to focus on investment advisers' duty of care and loyalty, focusing on eliminating or fully disclosing conflicts of interest. The following will receive additional scrutiny:

- » Advice provided to clients, especially recommendations involving high cost, uncommon, illiquid or hard to value investments. Assets sensitive to higher interest rates or altered market conditions, i.e., commercial real estate.
- » Dual registrants and advisers with affiliated brokers regarding the suitability of investments and recommendations, disclosures, account selection practices and conflicts of interest.

- » Conflicts of interest and their impact on impartiality, with particular attention to non-standard fee arrangements.

- **Advisers' Compliance Program**

The evaluation of the effectiveness of a compliance program and the advisers' policies and procedures will continue to be a point of focus during exams. The Division expressly noted the bespoke nature of this examination area, where specific structures or strategies will garner heightened scrutiny. Generally, these focus areas were highlighted for all advisers:

- » Fiduciary obligations where investment selection or management is outsourced.
- » Alternative sources of revenue or benefits the adviser receives.
- » Appropriateness, accuracy and the disclosures of fee calculations and related conflicts.

- **Advisers to private funds**

Advisers to private funds are a substantial percentage of registered investment advisers. The Division will focus on:

- » Whether disclosures reflect actual business practices.

REGULATION (cont.)

Presented by



- » The fiduciary duty to the client, especially in times of volatility, interest rate fluctuations or where the adviser has experienced poor performance and extensive withdrawals, high leverage or holds assets that are hard to value.
 - » Accuracy of allocations of fees and expenses.
 - » Adequate disclosures of conflicts of interest and risks and the policies and procedures surrounding disclosures.
 - » Compliance with recently adopted SEC rules, including Form PF amendments, and whether the policies and procedures reflect actual adviser practices.
 - » Advisers who have not been examined or who have not been examined recently.
- **Investment Companies**
Due to their importance to retail investors, the Division will continue to prioritize examinations of registered investment companies, including mutual funds and ETFs.
Examinations will focus on the compliance program, disclosures and governance. Specific areas include:
 - » Fees and expenses and associated waivers and reimbursements;
 - » Oversight of service providers;
 - » Portfolio management practices and disclosures with an eye towards consistency of claims made; and
 - » Issues concerning market volatility.
 - **Risk Areas Impacting Various Market Participants**
The Division will continue to focus on the adviser's cybersecurity practices, including how third-party

service providers identify and address risks to critical business operations. The Division will also focus on the adviser's compliance with Regulations S-ID (identity theft) and S-P (privacy) and the amended books and records requirements associated with the T+1 reduced settlement cycle.

The SEC will focus on the use of AI, automated investment tools, algorithmic trading and platforms, and any risks associated with these "emerging technologies and alternative sources of data." Regarding AI, the SEC will look at the accuracy of representations made, and that policies and procedures are in place to monitor the adviser's use of AI. This is expected to include policies for preventing and identifying fraud, back-office operations, anti-money laundering ("AML") and trading functions.

Particular focus will also be on almost all aspects of cryptoassets offered and sold as securities or related products.

Finally, for those firms now within the definition of "financial institutions" and required to maintain an AML program, the Division will focus on such programs and whether the program is sufficiently tailored, contains independent testing, has an adequate customer identification program and meets the Suspicious Activity Report filing obligations. The SEC will also review those firms to ensure they comply with the sanctions list of the Department of Treasury's Office of Foreign Assets Control.

The 2025 guidelines are not exhaustive, and the scope of any specific examination considers the entity's history, operations, services, products offered, and any other risk factors.

SEC Enforcement Round-up

Investment adviser fined \$500,000 over whistleblower violations

The SEC [announced](#) settled charges against registered investment adviser GQG Partners LLC for using non-disclosure agreements ("NDAs") that made it harder for candidates and a former employee to report potential securities law violations to the SEC.

According to the SEC, between November 2020 and September 2023, the firm entered into NDAs with twelve

employment candidates, requiring them to notify the firm before responding to government inquiries, thereby limiting voluntary reporting. It is also alleged that a settlement agreement with a former employee prohibited reporting past violations and required the employee to withdraw any previous statements supporting an investigation.

The SEC found these actions to violate the whistleblower protection rule and fined the firm \$500,000.

Seven investment advisers among the 23 entities fined for late reporting in another SEC sweep

The SEC [announced](#) settled charges against 23 entities, including seven investment advisers, for belated reporting on their holdings in publicly traded companies.

The sweep focused on timely beneficial ownership reporting,

specifically Schedules 13D and 13G for firms, and Forms 3, 4 and 5 for relevant corporate insiders. The fines were cumulatively in excess of \$3.8 million. The SEC had a [similar sweep](#) around the same time last year.

REGULATION (cont.)

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**SEC fines investment adviser \$1.5 million for MNPI failures**

The SEC [announced](#) settled charges against registered investment adviser Marathon Asset Management LP (“Marathon”) for failing to implement and enforce policies and procedures designed to prevent the misuse of material nonpublic information (“MNPI”).

Marathon’s strategy involved investing in distressed debt bonds or similar debt across multiple countries. Due to this investment strategy, the firm routinely participated in ad hoc creditors’ committees.

In July 2020, an issuer publicly announced it was exploring a potential restructuring. In response, in August of that year, analysts at Marathon approached an adviser about joining an ad hoc committee of the issuer’s unsecured creditors. The adviser agreed and signed a nondisclosure agreement (“NDA”) with the issuer to receive MNPI and began to assist the committee.

According to the SEC, Marathon communicated and coordinated with the adviser and committee members regarding the issuer’s investment strategies. The firm did not restrict trading activities until it signed an NDA in November 2020. Although the information received prior to that point

was labeled publicly available, Marathon knew the adviser received MNPI and failed to obtain additional assurances, nor did it conduct due diligence on the adviser’s practices.

Although the firm had policies and procedures for handling MNPI, the SEC argued that they were inadequate for a firm that would participate in ad hoc creditors’ committees. Further, the SEC found that Marathon failed to have any policies for monitoring or supervising the risk of misuse of MNPI arising out of these meetings or from advisers like the one in the present situation.

The SEC found that Marathon violated Section 204A of the Advisers Act by failing to prevent the misuse of MNPI. Although the firm has since taken remedial action by revising its MNPI policies, the SEC fined Marathon \$1.5 million.

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