June 2023

The Alternative Investor

Performance
News
Trends
Regulatory updates

How tech is changing private capital markets

Pactio's Eric Heimark looks at how tech has the potential to revolutionize private equity operations • **Marex Solutions' Nilesh Jethwa** turns to derivatives and creating a tech that can faster and more accurately price a broader range of products, empowering investors and advisors • **Argentex's Aaron Bird** discusses the importance of a holistic and interconnected approach to transformative tech • **Ask AI** where it sees its role in private capital markets...

A Brodie Consulting publication in conjunction with Capricorn Fund Managers and RQC Group.

#24

MIXED MONTH FOR HEDGE MANAGERS

Hedge fund indices were marginally negative in May, with the HFRI Fund Weighted Composite down -0.2% and Asset Weighted flat. This was a good result, given the market turmoil surrounding the US debt ceiling. Data, however, remained gloomy, investors were cautious, and the BCOM dropped by 5.6% (market commentary link).

The HFRI Equity Hedge (Total) Index was flat as many Western equity markets (excluding the FTSE 100) rebounded. Technology was the best-performing sub-sector, +3.8%, with the likes of Tesla +24% and Amazon and Alphabet +14%. Healthcare also had a good month, +1.3%. At the same time, Fundamental Value went the other way, -0.8%, and Multi-Strategy -0.7%.

For the Event-Driven managers, the going was more challenging, with the HFRI Event-Driven (Total) Index down -1.1%. Merger Arbitrage, Multi-Strategy and Special Situations managers were particularly hard-hit, down -2.3%, -2.2% and -1.7%, respectively. Activists were better placed, aligning with an uptick in activities, +1.5%.

Macro was primarily dragged down by the negative performance in commodities, with the HFRI Macro (Total) Index down -0.2%, while the Commodity index fell -2.5% with WTI -11.5% and Brent -9.1%. In this environment, Discretionary was down -0.3% but Systematic Directional +0.7% as new trends came into play. Currencies were the best performing, +1.4%.

The Relative Value index was marginally positive in May. This was led by Fixed Income Convertible-Arbitrage Index +0.6%, whist on the other end of the spectrum, the worst performing was the Yield Alternatives Index, -1.3%

Regionally, the best-performing focus was India, with the India index +5.4%, followed by the LATAM index +3.3%. The worst performing was China, -1.9%.

INDUSTRY EVENTS

14-15 June
Family Impact and Innovation Forum (Minnesota)

20-21 June
Women in Private Markets Summit North America

22 June
Private Credit US Leadership Summit

Click here to see all the listings

$52bn

Size of CalPERS' existing private equity investments

Source: CalPERS

£36bn

Wealth of hedge fund managers in Sunday Times' Rich List

Source: Sunday Times

EQT BAGS DECHRA FOR REDUCED PRICE

Given the underwhelming nature of UK private equity deals this year, the sector must have breathed a sign of relief when **EQT** announced it was buying **Dechra Pharmaceuticals**. The cost is £4.5 billion, which is below the initial offer in April, when EQT offered 4,070p per share. This follows a material profit warning announced in May. Investing alongside EQT is **Abu Dhabi Investment Authority**. Deal completion is subject to shareholder approval and antitrust regulators.

APOLLO CONTINUES TO HUNT FOR UK DEALS

US private equity giant **Apollo** is another PE firm looking for high-quality, undervalued UK businesses. There has been plenty of coverage on UK value, but not a lot of action. But Apollo is one name that has constantly been in the mix, although it has shown that it can afford to be picky, having pulled the plug on **John Wood Group** and **THG** deals. Since then, Apollo has signed an agreement with construction firm **United Living**, the UK-based infrastructure, social housing maintenance and construction services business. Terms of the sale were not announced.

INVESTING IN ITALIAN LUXURY

Permira has taken control of Italian fashion house Gruppo Florence, having acquired the stake from **VAM Investments, Fondo Italiano d'Investimento, Italmobiliare** and **Gruppo Florence**. With Permira's resources and operational expertise, they are looking to further build the brand, consolidate products and service leadership.

NEW RELIC PUTS UP THE FOR SALE SIGN

New Relic, the San Francisco-based Web tracking and analytics company, is up for sale and seeking more than $5 billion. According to **Reuters**, the early front runners, **Francisco Partners** and **TPG**, have both ruled themselves out, having failed to raise the required finance. Not helping the process were disappointing results that saw New Relic's share price drop by 7%.

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UPDATES (CONT)

BUILDING PRIVATE WEALTH BUSINESSES

EQT has announced a private-wealth platform with the launch of **EQT Nexus**. This is a global portfolio that will invest in the Swedish private equity firm's strategies, from mature buyouts to early-stage investments. In line with EQT's focus, it has a bias towards private equity and infrastructure and will co-invest alongside EQT funds. EQT Nexus is led by *William Vettorato*, who is a recent joiner from **Partners Group**.

CALPERS BUILDS OUT ITS PE EXPOSURES

Over the past few years, **CalPERS** has bolstered its exposure to private equity and wants more. According to the **Financial Time**s, the public pension plan is reviewing its existing PE investments, which total $52 billion, having increased the allocation in 2022/23 from 8% to 13%. In CalPERS' 2030 goals, CIO *Nicole Musicco* said the focus is on illiquid investments and building in-house capabilities, which has included the recent hire of *Daniel Booth* as Deputy CIO for private markets, having joined from the UK's **Border to Coast Pension Partnership**.

MIND THE GAP

Private equity firms are trading at significant discounts of more than 30% of their net asset value, writes **MoneyWeek**. It is the same picture in private equity trusts, where valuation gaps range from 18% to 54%. This is according to **Investec** data. But it is not only the firms themselves that are trading at discounts, it is also some of their portfolio investments that are vbeing sold at a discount to their IPO price. An example is **Bumble**, which **Blackstone** sold shares at $22.80, having IPO'd at $43 in 2021.

FRANKLIN TEMPLETON BUYS PUTNAM

Franklin Templeton has announced it is buying **Putnam Investments** from **Great-West Lifeco**. This is a typically acquisitive move by Franklin Templeton that adds to its retirement business and increases its assets by a further $136 billion.

Continuing the work of the previous CEO *Gregory Johnson*, *Jenny Johnson* has been further building the company's alternative offerings, given the higher fees and longer-term investments through retirement plans.

As part of the Putnam deal, Great-West Lifeco has agreed to allocate $25 billion to Franklin's alternative funds.

GREW TO STAMP MARK ON MAN GROUP

Once the dust had settled on **Man Group** announcing its new CEO, *Robyn Grew*, **Bloomberg's** *Barry Ritholtz* got the first interview for his **Masters in Business** podcast (link).

The podcast is a perfect example of the direction of travel in the media - with podcasts proving a brilliant medium for getting out key stories and introducing/ getting to know influential characters. When you have an articulate interviewee like Grew, a podcast is a no-brainer, and a simple way to break down personal and professional barriers.

In Ritzholtz's podcast, Grew talks about how a barrister came to be running the world's largest listed hedge fund.

Grew, who will take over the reins in September from *Luke Ellis*, clearly has big ambitions and will continue to build on Ellis' legacy. Unsurprisingly, given the firm's quant bent, this includes investing in **AHL** and the other quant businesses. Grew is also looking to build a US presence and acquisitions that will add value to the firm's strategies and offerings.

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UPDATES (CONT)

BRAHMAN SHUTS FUND

It is always sad news when an established fund closes its doors - the latest being **Brahman**, which is shutting its stock-picking hedge funds after 30 years. Unfortunately, the $1.1 billion fund lost money over the last two years, writes **Bloomberg**. Brahman Capital Corp. will, however, continue to run its long-only fund.

BUILDING US BUSINESSES

There is a growing trend for European managers to look to the US to build their business. For example, **Ruffer** opened their New York office, **Lansdowne Partners** bought **CRUX** with its US family office ties, and now **Marshall Wace** has hired *Todd Builione*, partner and global head of private wealth at **KKR** in New York, to head up North America. Todd is taking over from *Michael Sargent* who is retiring in January. That KKR also owns 24.9% of Marshall Wace makes this move all the more interesting.

YANKING CASH

With few funds covering themselves in glory in recent months, investors have been pulling money from the hedge fund space, with a record $11.6 billion out of the door in April. This comes from **eVestment** data, which described the redemptions as 'broad-based.'

There were, however, a few glimmers of hope, notably Multi-Strategy funds, which continued to see inflows. Conversely, Managed Futures saw the most significant move, with the largest net outflows in almost three years. Macro funds also continued to see redemptions, albeit at a slower rate than in recent months.

LANSDOWNE BUYS CRUX

On a far smaller scale to the **Franklin Templeton/ Putnam** deal, **Lansdowne Partners**, the London-based asset manager, is buying **CRUX Asset Management** for an undisclosed sum.

CRUX, a long-only active manager, was set up in 2014 by *Richard Pease*. This development sees the transfer of all the CRUX funds, covering Asia, Europe and the UK, and $1.1 billion of assets to Lansdowne's $7 billion business.

Last year, CRUX sold a minority stake to **Stephens**, an established US financial services firm with close ties to family and price wealth - an area Lansdowne can now tap into.

For Pease, who has been a leading figure in London asset management for many years, this move allows him to retire, with Lansdowne's Daniel Avigad taking over his funds.

HIGHS & LOWS

It has been a decade since *Pierre Andurand* launched **Andurand Capital Fund**, during which he has seen the dramatic highs and lows of the oil markets. Luckily for Andurand he has a thick skin and knows how to ride out storms. Unfortunately, this year has been all about the lows, as he took another 9.4% hit in **Andurand Commodities Discretionary Enhanced Fund** in the first three weeks of May. **Bloomberg** reported that the fund was down around 46% this year. Not so long ago, Andurand was bullishly predicting oil rising above $140 - yet it is now hovering around $70 a barrel.

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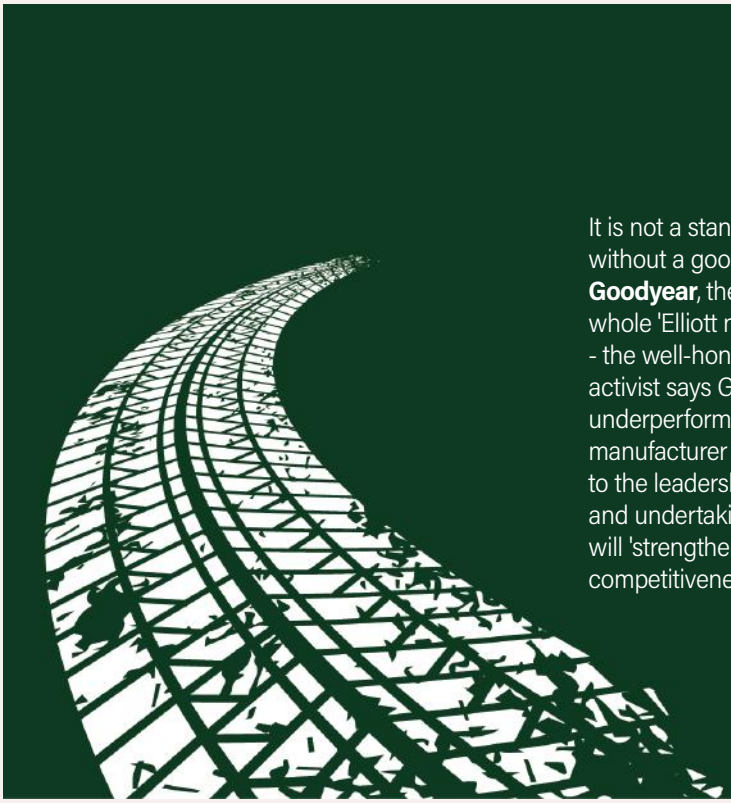
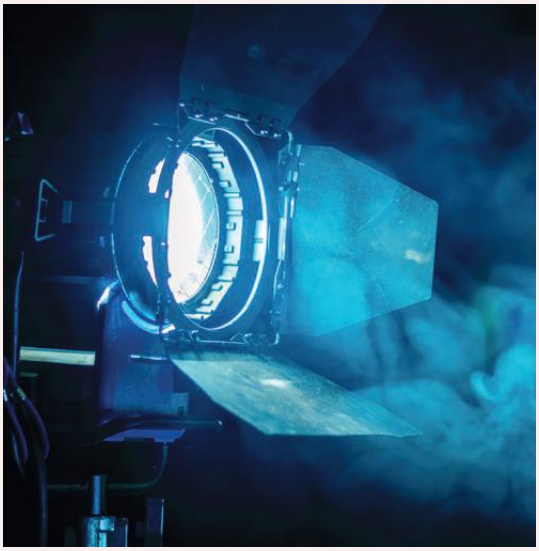


GET A GRIP

It is not a standard edition of The Alternative Investor without a good **Elliott Management** story. This month it is **Goodyear**, the US tyre manufacturer, which has received the whole 'Elliott nine yards' - presentation, letter and website - the well-honed playbook that Elliott has perfected. The activist says Goodyear has 'meaningfully and consistently' underperformed. To turn itself around, Elliott believes the manufacturer should make material changes, including to the leadership, monetising the firm's retail platform and undertaking an operational review. Such a move will 'strengthen Goodyear's financial position, bolster its competitiveness and create sustainable value.'

SPECIAL LOAN

Another **Elliott** story this month is its position in **Deutsche Wohnen**, the DAX-listed property company. The activist manager has taken exception to a 'special loan' to its controlling shareholder, a concern that **ISS** also shares. Elliott believes the money could be used elsewhere, while ISS is concerned about possible conflicts of interest. There is an interesting trend here, with ISS also siding with another activist's proposals, **Primestone Capital**, over at Brenntag.



SHORTS TROUSERED

Short investors in **Nvidia**, the video game chip marker, have not only lost their trousers, but also their socks and boxers over the past few weeks - $2.5 billion alone on the 25 May mark to market, according to **S3 Partners** data - as the stock price shot up over 30%. This followed Nvidia's release of better-than-expected results, which saw the major tech stocks all bounce. The company holds a leading position in the AI market that has become an arms race in recent months, with a heavy reliance on Nvidia chips. Nvidia's valuation has since broken the trillion-dollar barrier, which is more than **Tesla** and **Facebook**.

ILLUMINATING

Carl Icahn may well be on the back foot at **Icahn Enterprises** with **Hindenburg Research** breathing down his neck - an awkward situation that he is sure to fight - but this has not stopped him from taking on another fight. This is with **Illumina**, a longstanding position that he first invested in 2016 as an undervalued business.

Icahn has since argued that the company has been poorly managed, describing the $7 billion acquisition of **Grail** - which has all forms of antitrust issues - as "inexplicable and unforgivable." In recent weeks, one of three board nominees put forward by Icahn has been appointed, while the company chair, *John Thompson*, has been removed.

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UPDATES (CONT)

WHO SITS WHERE

Brits enjoy poring over the **Sunday Times' Rich List**. Even the very rich, who almost always claim disdain for such metrics, will closely check to see if they are up or down and then complain when they are not where they assume they should be.

This year, there was no shortage of hedge funds managers in the rankings, making up 19 of the 350 entrants and a combined net worth of £36 billion.

The top three leading the pack were *Michael Platt, Sir Chris Hohn* and *Chris Rokos*. Proving that turning a hedge fund into a private office - and not be burdened with regulatory and investor constraints - can pay off handsomely, Platt is now in the top 10, with £11.5 billion. In second place, Hohn has £5 billion, double last year's figure, with his firm TCI benefiting from the equities rebound.

According to **The Times**, Hohn also got the headlines for being the most generous philanthropist, donating £2.1 million a day.

WHY 2023 MAY BE GOOD FOR PRIVATE MARKETS

Jay Serpe, **JPMorgan's** Global Head of Alternative Investments, Strategy and Business Development, has given his views on where the greatest opportunities sit in private markets: **Core private** equity, where public market volatility is creating new opportunities. **Secondaries**, as high-quality institutional funds come to market. **Growth equity and venture capital**, as young companies seek support. **Infrastructure**, where there is a global shift creating new entry points. And along with many others in the space, he sees growth in **private credit** as traditional sources of financing continue to dry up - even if rates remain static, he expects to see more distressed credit opportunities.

TRISTAN LOOKING TO RAISE EUR 750M

London-based real estate manager, **Tristan Capital Partner**, is looking to raise €750 million from institutional investors for its second debt fund over the next two quarters. The fund will be an Article 8 fund that will provide floating rate loans of up to 75% LTV to European markets and comes just a few months since **Candriam Group** took a 31% stake in the real estate business. Their first fund, **Tristan Income Plus Strategy One**, is close to being fully deployed.

FAMILY OFFICES TURN TO PRIVATE CAPITAL

Consistent in various family office reports released in recent weeks is the interest in private markets.

In **BlackRock's Global Family Office Report** - *Seizing opportunities in times of change* - the survey results show a strong preference for private markets, with family offices planning to maintain or increase exposures, particularly to private credit and private equity direct deals.

In **Goldman Sachs'** report - *Eyes on the Horizon* - the focus is towards more aggressive asset allocation, with a continued focus on risk assets and overweighting to IT and healthcare. Interestingly, there was little change in alternative investment interest between the 2021 report and the 2023 report. Residential real estate continues to be of interest, with around a third of those questioned planning to increase their exposure to the sector over the next 12 months. Private credit is a small part of the allocations (3%), but a third said they expected to increase this allocation. While in the collectables space, art, wine, and aircraft were the most popular.

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Bruce Cleaver, Co-Chair, De Beers Group

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GUEST ARTICLES (cont.)

Technology and Derivatives: Revolutionising Alternative Asset Markets and Investment

NILESH JETHWA, CEO MAREX SOLUTIONS

The rapid advancements in technology have had far-reaching impacts on various industries, including the financial sector. One area that has experienced significant change is the alternative asset market. As investors continue to seek new opportunities to diversify their portfolios and enhance returns, the use of technology to improve investment performance has become increasingly crucial.

Alternative asset markets have historically been less accessible to individual investors due to their complex nature and high barriers to entry. However, technology has played a pivotal role in democratising access to these markets, enabling investors to tap into new sources of potential returns. As a result, the demand for innovative financial products, such as structured products and derivatives, has surged.

Derivatives, which are complex financial instruments whose value is derived from an underlying asset, can be used to manage market risk or provide investors with a yield on their investment. They have become an essential tool in the alternative asset markets, allowing investors to hedge against potential losses, enhance returns, and gain exposure to otherwise inaccessible asset classes. By incorporating derivatives into their investment strategies, investors can achieve a more diversified and risk-adjusted portfolio, ultimately improving their overall investment performance.

Marex Solutions, a division of Marex Group, specialises in manufacturing and distributing structured products, with a focus on Hedging Solutions for corporates and Financial Products for professional investors. Recognising the need for a more efficient and accurate way to explore investment ideas and obtain pricing information, Marex Solutions has developed Agile, a cutting-edge derivative pricing and execution platform.

The derivatives industry has been infamously referred to as creating opaque, unpredictable, and complex products that are very difficult to manage. Our platform addresses these long-standing challenges and delivers a more transparent and predictable experience for investors. This enables investors and advisors to access a comprehensive universe of asset classes, including equities, interest rates, commodities, and foreign exchange.

By leveraging advanced technology, Agile is able to streamline the investment process, allowing users to quickly and accurately price a wide range of derivative

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GUEST ARTICLES (cont.)

products. This empowers investors and advisors to make more informed decisions, as they can easily compare different investment options and assess their potential impact on portfolio performance.

In addition to providing accurate pricing, Agile also offers a range of tools and features designed to enhance the user experience. These include customisable dashboards, real-time analytics, and seamless integration with existing systems.

Agile harnesses the power of cloud-first technology to deliver unparalleled efficiency and scalability in managing market risk and investment opportunities. Our proprietary cross-asset quant library further enhances the platform's capabilities by offering comprehensive analytics and insights across multiple asset classes. This seamless integration of technology with our broad computational power enables us to serve an increasingly diverse global customer base.

Technology has had a transformative impact on the alternative asset markets, particularly in the realm of derivatives. By harnessing the power of technology, investors can now access a broader range of investment opportunities, manage risk more effectively, and ultimately improve their investment performance. Agile exemplifies this trend, offering a sophisticated and user-friendly solution for exploring investment ideas and obtaining accurate pricing across a diverse universe of asset classes. As the financial landscape continues to evolve, technology and derivatives will undoubtedly play an increasingly significant role in shaping the future of alternative asset markets and investment performance.

Nilesh Jethwa is the CEO of Marex Solutions, a division of Marex that specialises in the manufacture and distribution of customised derivative products.

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The Long-Short

Podcast

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Hosted by

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Managing Director,
Global Head of Research and Communications
AIMA

Drew Nicol
Associate Director,
Research and Communications
AIMA

Latest guests include:

Robyn Grew,
President at Man Group

Bob Sloan
Founder and Managing Partner at S3 Partners

Elissa von Broembsen-Kluever
Partner and Managing Director at Omni Partners

GUEST ARTICLES (cont.)

Unlocking the Future: Harnessing Integrated Technology to Transform Private Capital Markets

ERIC HEIMARK, CEO, PACTIO

Over the past decade, private capital markets have seen unprecedented growth, not only in transaction and dollar volume, but also in deal complexity. This growth has led to a significant institutionalization of General Partners (GPs). Yet, despite these strides, the industry continues to grapple with a crucial operational challenge – a daunting dependence on manual processes and a technology stack that has not kept up with the pace of contemporary advancements. The true transformation of the industry will hinge on harnessing the potential of integrated technology.

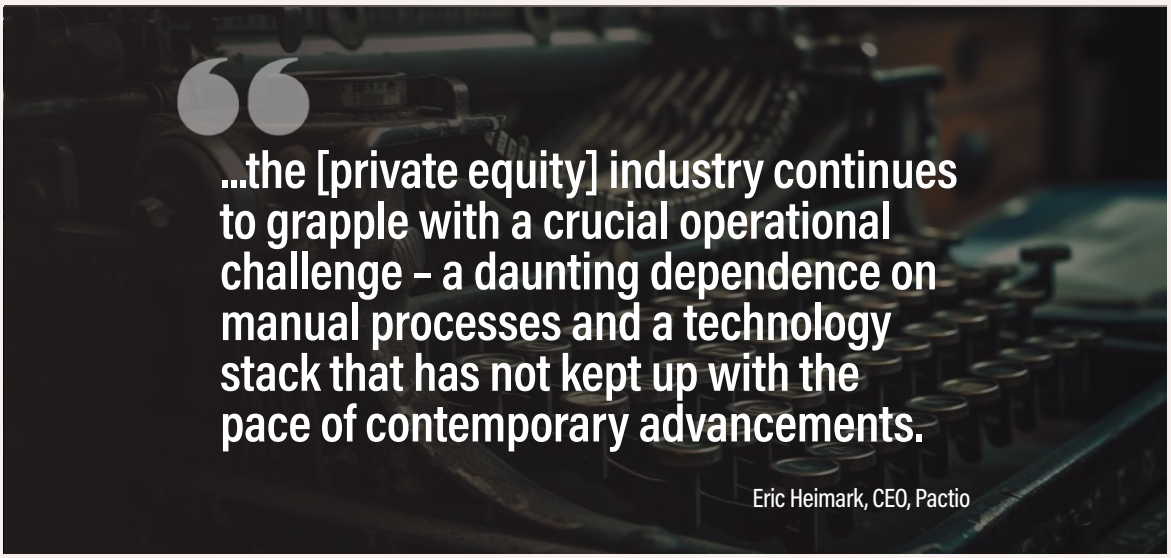
We have engaged in detailed discussions with hundreds of insiders from the alternative investment ecosystem. Our conversations spanned from investors and operational professionals at private equity GPs to professional advisors and service providers including accountants, lawyers, and fund administrators. These discussions consistently illuminated two urgent challenges:

1. Streamlining labor-intensive manual processes.
2. Effectively managing data throughout an investment's lifecycle.

The crux of these challenges lies at the deal-closing stage, which currently remains a predominantly manual process. Substantial resources, time, and energy are expended on crucial tasks where there is zero margin for error. Indeed, the high stakes involved can result in severe repercussions, as seen in 2019 when hackers intercepted a high-profile merger and stole $130 million.

Furthermore, fragmented workflows among deal team members, advisors, and support staff can lead to essential information slipping through the cracks. This issue surfaces not only during the high-pressure deal-closing phase but throughout the lifecycle of an investment. The complex coordination efforts among deal teams, advisors, fund administrators, and back-office teams make it nearly impossible to accurately track the evolution of a deal and establish a single source of truth.

Addressing these challenges is akin to taming the waters in the Gulf of Mexico. Currently, firms are resorting to patchwork downstream solutions that only partly calm the swells. A more effective approach involves moving upstream to tackle the issues at their source, namely revamping the manual process of exchange and establishing an integrated data architecture capable of supporting the intricacies of the private capital markets ecosystem.



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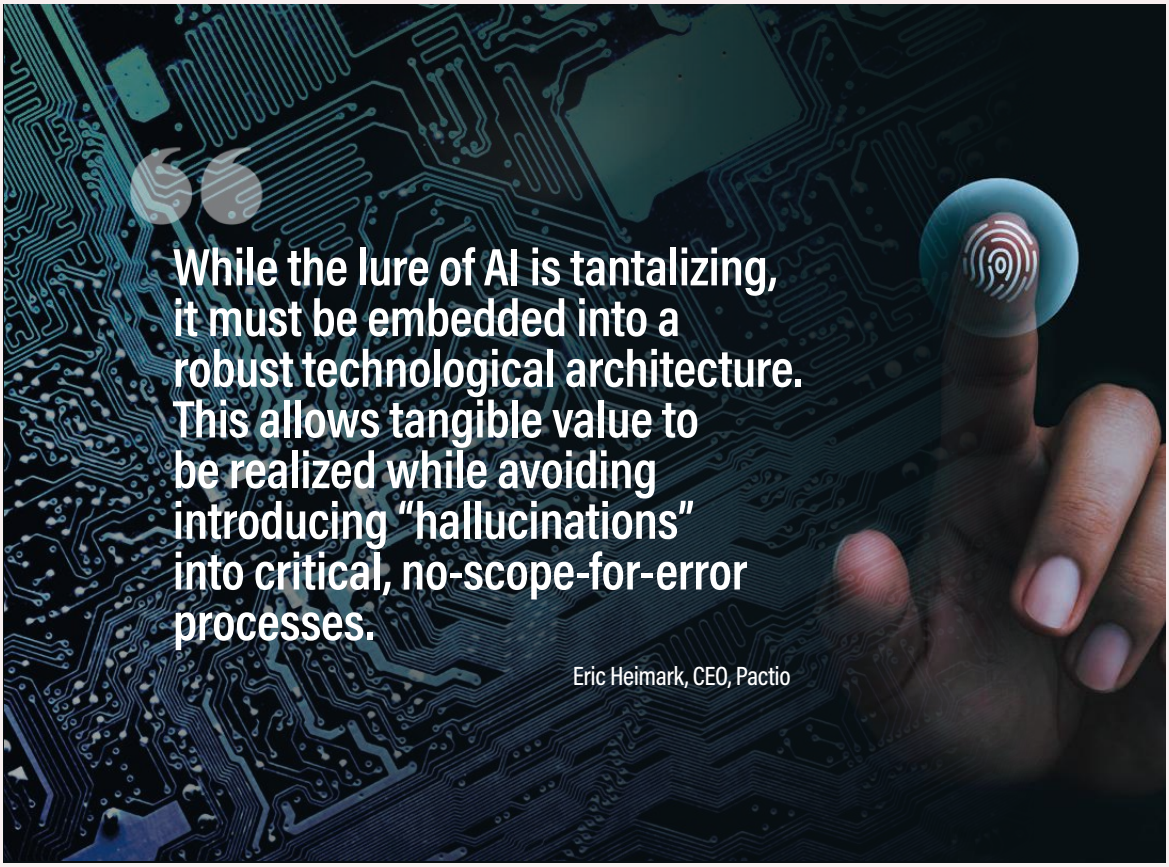

Advanced technologies offer an unparalleled opportunity for firms seeking a competitive edge. The key though is tackling the issue at its root, by implementing a solid, integrated foundation that will enable firms to harness the power of technological advances, such as increasingly powerful AI. While the lure of AI is tantalizing, it must be embedded into a robust technological architecture. This allows tangible value to be realized while avoiding introducing "hallucinations" into critical, no-scope-for-error processes.

At Pactio, we are firm believers in technology's potential to revolutionize private market operations, driving enhanced efficiency and mitigating risks inherent in manual processes. We've dedicated years to developing a comprehensive architecture that captures precise data at the source, utilizing advanced AI to bolster operational productivity immensely.

As we cast our gaze towards the future, it is the embracement of full lifecycle technology that will catalyze a true paradigm shift in private capital markets. Adopting new technology will require commitment and adaptability, but it promises substantial returns for firms willing to overcome these initial challenges.

Many private equity investors extol the virtue of tech edge in their investments, yet their adoption of quality technology hasn't kept pace with industry advancement. The moment is opportune for top-tier investors to adopt full-lifecycle technology and access its transformative potential.

Eric Heimark is the CEO of Pactio, a company that provides tech for private equity professionals. Eric was previously an investor and Executive Director in Goldman Sachs's private equity arm. Having grown up in Silicon Valley and studied computer science at Yale and Brown, he has a passion for tech.

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GUEST ARTICLES (cont.)

Accelerating growth with the power of APIs

AARON BIRD, HEAD OF ALTERNATIVES AND ENTERPRISE SOLUTIONS, ARGENTEX

Since the pandemic, which served as a catalyst for digital transformation in many financial institutions, sophisticated, new technologies are deployed with increasing velocity. Future innovation in the sector will revolutionize the way many firms operate. Funds will harness the power of Application Programming Interfaces (APIs) to improve reporting, data transparency and compliance requirements, freeing up managers to concentrate on investment strategy and client services. In such a fiercely competitive and regulated landscape, it has never been more important to stay ahead as the race to innovate accelerates.

Technology at the heart of business functions

Until recently, only institutional investors with large budgets could access the cutting-edge solutions capable of creating company-wide efficiencies and growth opportunities. Today, technology is more accessible. AI, blockchain, big data and cloud computing are commonly found at the heart of companies' business functions with more organisations taking advantage of their transformative influences.

Application Programming Interfaces (APIs) are one of the most effective tools for managing multiple tasks through a single programme. In the complex landscape of the funds ecosystem, there are hundreds of applications and software systems to create operational efficiencies. APIs enable these systems to share data in an effective and compliant way, allowing fund managers to access information in real-time for faster and more accurate decision making.

Managing the impact of currency volatility through innovation

One of the most significant innovations for investment managers are digital currency accounts that can be rapidly incorporated to reconcile payments, identify patterns through payment data and help make informed decisions about your investment's future FX

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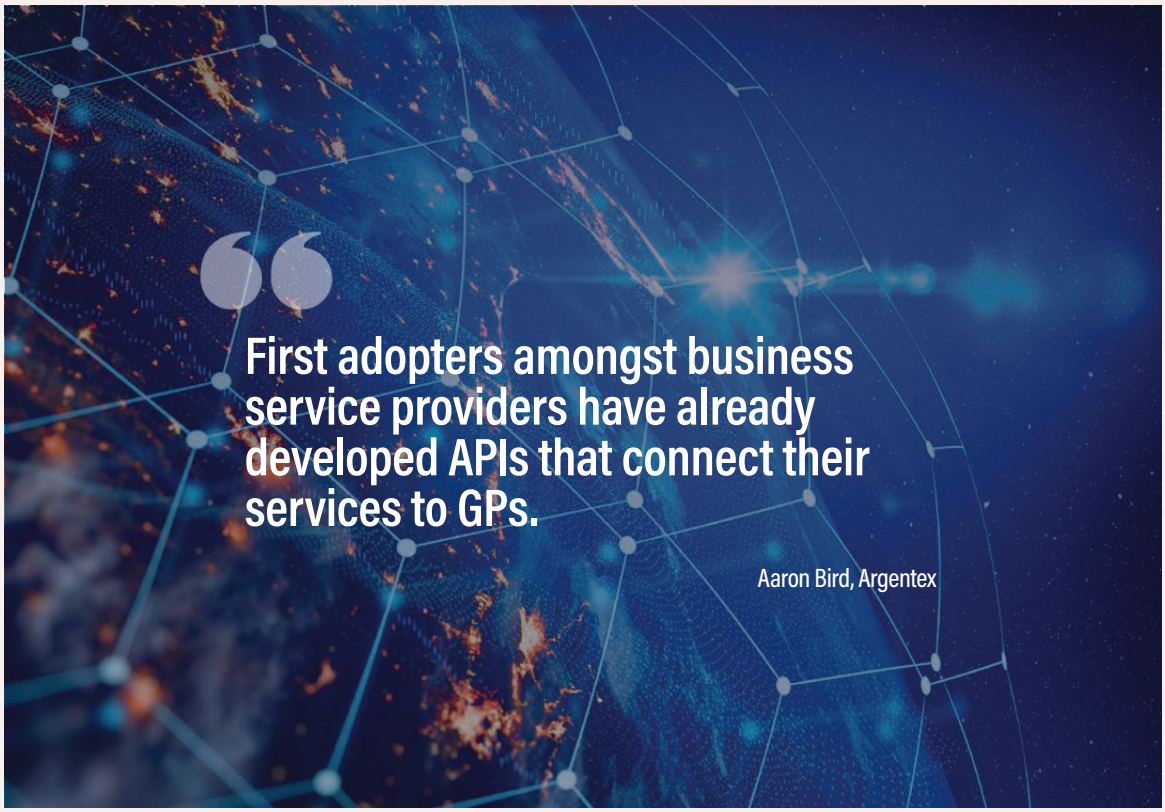

requirements. The data can provide accurate analysis for hedging opportunities to better manage the impact of currency volatility on balance sheets and investment performance.

With the increasing adoption of technology comes a greater risk of operational and integration challenges. All technology-driven products need to be interoperable to serve their intended purpose. Firms may find themselves siloed if technology investment only covers one aspect of their business. To truly reap the benefit of today's transformative technologies, a holistic and interconnected approach is required. First adopters amongst business service providers have already developed APIs that connect their services to GPs. Thereby allowing GPs to deliver more transparent and real-time reporting as well as an improved and cost-effective experience for their LPs.

What does the future hold?

Innovation and the use of APIs is driving the future of investment funds and will have a significant impact on how they operate. Tech-driven tools will play a crucial role in meeting evolving client and regulatory requirements, making investment decisions and thriving in a competitive landscape.

As technology continues to evolve, more innovative solutions will be developed that will drive further efficiencies in the finance industry. APIs will continue to gain prominence and firms with a clear vision of how to implement them across their entire organisation will see the most benefit.

By Aaron Bird, Head of Alternatives and Enterprise Solutions at Argentex. Argentex is the leading provider of global payment and currency risk management solutions.

Visit www.argentex.com to find out more.

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GUEST PIECES

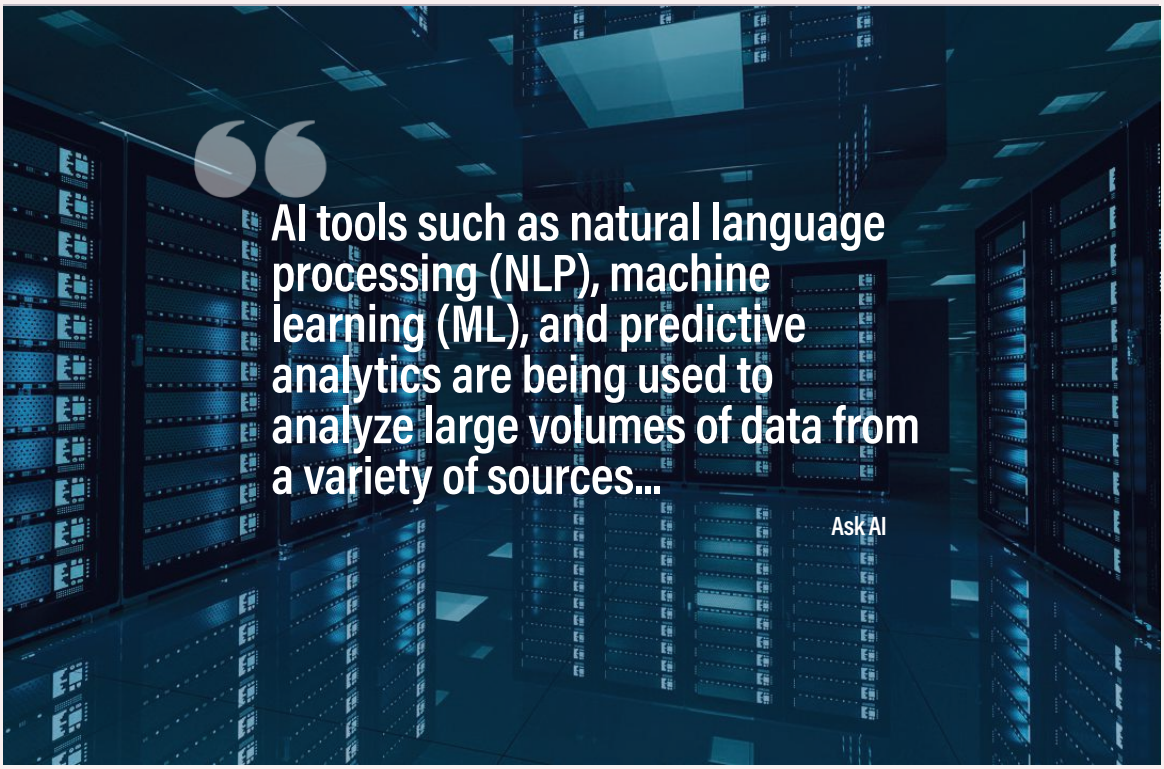
The role of AI in today's private capital markets

WHEN EVEN THE FINANCIAL TIMES IS WRITING ABOUT THE ROLE AND DANGERS - NO ESCAPE - OF AI, WE DECIDED TO TRY THE TECHNOLOGY TO TELL US THE ROLE OF AI IN PRIVATE CAPITAL MARKETS...

Artificial intelligence (AI) is rapidly transforming the private capital markets, bringing about new opportunities and challenges for investors, fund managers, and other market participants. Private capital markets have traditionally relied on human judgment and expertise to identify investment opportunities, manage portfolios, and generate returns. However, with the advent of AI technologies, private capital markets are becoming more data-driven, automated, and efficient, enabling investors to make better-informed decisions, optimize their portfolios, and achieve higher returns.

One of the key ways in which AI is changing private capital markets is by enhancing the investment process. AI tools such as natural language processing (NLP), machine learning (ML), and predictive analytics are being used to analyze large volumes of data from a variety of sources, including financial statements, news articles, social media, and industry reports. By leveraging these data sources, AI can help investors to identify emerging trends, uncover hidden patterns, and assess the potential risks and opportunities associated with different investments. For example, AI-powered algorithms can analyze financial data to predict the likelihood of a company experiencing financial distress or bankruptcy, enabling investors to make more informed decisions about whether to invest in that company.

Another way in which AI is transforming private capital markets is by improving portfolio management. AI tools can be used to optimize portfolio performance by analyzing data on historical returns, risk profiles, and market trends to identify the most promising investment opportunities. AI can also help investors to manage risk by identifying potential threats to their portfolios, such as market volatility or changes in interest rates, and providing recommendations



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GUEST ARTICLES (cont.)

on how to mitigate those risks. Additionally, AI can assist with portfolio rebalancing by automatically identifying areas of over- or under-allocation and suggesting adjustments that can help to optimize returns.

AI is also changing the way private capital markets approach fundraising and deal sourcing. AI-powered platforms can analyze vast amounts of data on potential investors and companies to identify potential matches based on investment preferences, geographic location, industry focus, and other factors. This can help investors and fund managers to identify new investment opportunities and efficiently allocate capital to the most promising deals. Additionally, AI can assist with deal due diligence by analyzing data on the financial performance, governance, and other key factors of potential investments, providing valuable insights that can inform investment decisions.

However, the adoption of AI in private capital markets is not without its challenges. One of the primary concerns is the potential for AI to perpetuate biases and exacerbate inequalities. For example, if AI algorithms are trained on historical data that reflects existing biases, such as gender or racial biases, they may perpetuate those biases when making investment decisions. Additionally, the lack of transparency and interpretability of some AI algorithms can make it difficult to understand how decisions are being made, raising concerns about fairness and accountability.

Another challenge is the need for human expertise and judgment in the investment process. While AI can provide valuable insights and data-driven recommendations, it cannot replace the judgment and experience of human investors and fund managers. It is essential that AI is used as a tool to augment human decision-making rather than replace it.

AI is transforming private capital markets by enabling investors to make more informed decisions, optimize portfolio performance, and identify new investment opportunities. However, the adoption of AI in private capital markets is not without its challenges, including the potential for bias and the need for human expertise and judgment. As AI continues to evolve and mature, it will be essential for investors to use their judgment.

Ask AI is a product developed by Codeway, a software development company that specalises in AI and machine learning.

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REGULATION

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EU-UK MEMORANDUM OF UNDERSTANDING ON FINANCIAL SERVICES COOPERATION

HM Treasury has published the draft text of a Memorandum of Understanding establishing a framework of financial services regulatory cooperation between the EU and the UK.

Described as an endeavour to pursue a 'robust and ambitious' bilateral regulatory cooperation, it is based on a shared objective of preserving financial stability, market integrity and the protection of investors and consumers.

It provides for bilateral exchange of views, analysis relating to regulatory developments, and transparency and dialogue regarding 'equivalence' decisions (which could make market access easier to participants).

The Memorandum establishes a Joint EU-UK Financial Regulatory Forum, as a platform to facilitate structured regulatory cooperation.

SEC ISSUES RECORD WHISTLEBLOWER AWARD

The U.S. Securities and Exchange Commission ("SEC") announced on May 5 that it had issued its largest ever award to a whistleblower. The award of nearly $279 million more than doubles the previous highest amount of $114 million which was issued in October 2020.

In its announcement, the SEC noted that "while the whistleblower's information did not prompt the opening of the Commission's investigation, their information expanded the scope of misconduct charged", and that "the whistleblower's sustained assistance including multiple interviews and written submissions was critical to the success of these actions."

Payments to whistleblowers are made from an investor protection fund which is financed entirely through monetary sanctions paid to the SEC by securities law violators. No money is taken or withheld from harmed investors to pay whistleblower awards.

COMMODITY FUTURES TRADING COMMISSION CHARGES COMMODITY POOL OPERATOR IN A $6 MILLION PONZI SCHEME

The Commodity Futures Trading Commission ("CFTC") on May 11 filed a complaint against a Chicago-based registered commodity pool operator and its principal, as well as eight other entities under the principal's control. The complaint charges the principal with defrauding more than 50 people throughout the United States in a Ponzi-like scheme that took in more than $6 million between approximately October 2019 and the present.

The complaint charges the principal and the controlled entities with a commodity pool fraud, as well as with violating CFTC regulations governing the proper operation of commodity pools and with making false and misleading statements to the National Futures Association ("NFA").

The complaint alleges that the principal falsely promoted himself as a "managed futures hedge-fund magnate with billions of dollars under management," claiming that he had achieved "extraordinary rates of return of up to more than 200% annually in recent years". In reality, the principal had misappropriated

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pool participant funds and operated a Ponzi scheme, using the money to fund a lavish lifestyle and promote the false image of a hedge fund tycoon.

Further, the principal lied in pool filings to the NFA that it was not actively soliciting or accepting funds and repeated the same untruths to NFA examiners when questioned in April 2023.

In its continuing litigation, the CFTC is seeking restitution to defrauded pool participants, disgorgement of any ill-gotten gains, civil monetary penalties, permanent trading and registration bans, and a permanent injunction against further violations of CFTC regulations.

WHATSAPP: U.S. REGULATORS CHARGE HSBC AND SCOTIA CAPITAL WITH RECORD-KEEPING FAILURES

The SEC on May 11 charged HSBC Securities (USA) Inc. ("HSBC") and Scotia Capital (USA) Inc. ("Scotia Capital") for longstanding failures by both firms and their respective employees to maintain and preserve electronic communications. In settlement of the charges, HSBC and Scotia Capital acknowledged that their conduct violated recordkeeping provisions of the federal securities laws and agreed to pay penalties of $15 million and $7.5 million, respectively. Concurrently, the CFTC issued an order against Scotia Capital and an affiliate for failing to "maintain, preserve, or produce records that were required to be kept under CFTC recordkeeping requirements", imposing combined penalties of $15 million.

The SEC's investigation of HSBC and Scotia uncovered the regular use of off-channel communications at both firms with employees frequently communicating business matters on their personal devices using messaging platforms such as WhatsApp. Neither firm maintained nor preserved the majority of these communications, in violation of the SEC's recordkeeping requirements.

The CFTC's order, also issued May 11, found that Scotia and its affiliate, for a period of years, failed to prevent employees, including those at senior levels, from communicating using unapproved communication methods, including personal text and WhatsApp.

In addition to the financial penalties, the SEC ordered HSBC and Scotia to cease and desist from committing further violations of the relevant recordkeeping provisions, and both firms agreed to retain compliance consultants to conduct full reviews of their policies and procedures relating to the retention of electronic communications.

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REGULATION (cont.)

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MARKETING CAYMAN FUNDS IN THE UNITED ARAB EMIRATES: SECURITIES AND COMMODITIES AUTHORITY UPDATE

In early May 2023, the Securities and Commodities Authority ("SCA") of the United Arab Emirates ("UAE") issued written confirmation that Cayman funds may now be registered with the SCA for private offering in the UAE.

This follows the SCA ceasing to allow the registration of such funds in February 2023.

General rules concerning the registration of foreign funds with SCA for private offering will apply to Cayman funds.

In particular, fund managers will be required to:

(i) appoint a locally licensed promoter, and

(ii) pay an initial registration fee of AED 12,000.

The SCA will take around five business days to review and approve the registration application.

The SCA has also confirmed that an offering to "government-related" investors will be exempt from the rules which apply to the marketing of foreign funds in the UAE. This includes federal or local governments, government institutions and agencies, or companies wholly owned by any of these.

The SCA has indicated that it intends to introduce a requirement for a minimum subscription amount of AED 500,000 per investor for foreign funds registered with SCA for private offering in the UAE, but to date, no regulation has been issued.

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Brodie Consulting Group is an international marketing and communications consultancy, focused largely on the financial services sector. Launched in 2019 by Alastair Crabbe, the former head of marketing and communications at Permal, the Brodie team has extensive experience advising funds on all aspects of their brand, marketing and communications.

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Capricorn Fund Managers Limited is an investment management and regulatory hosting business that provides regulatory infrastructure and institutional quality operational, compliance and risk oversight. CFM is part of the Capricorn Group, an international family office, which has been involved in alternative assets since 1995.

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Founded in London in 2007 and with a dedicated office in New York, **RQC Group** is an industry-leading cross-border compliance consultancy specializing in FCA, SEC and CFTC/NFA Compliance and Regulatory Hosting services, servicing clients with AUM in excess of $295 billion.

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