



The **Alternative Investor**

**Performance
News
Trends
Regulatory updates**

**A few
trends
that are
shaping
our sector.**

Arosa Capital Co-Founders Alexandra Daly and Peter Soliman dig into gender inequality in venture capital funding, with funds dedicated to female entrepreneurs not just a nod towards social justice but a testament to the untapped potential that can drive significant economic growth and innovation. **Prosek Partners' Josh Clarkson** changes tack with a look at the trend among large alternative managers to acquire and build life insurance components as they seek to generate uncorrelated outsized returns. In **Letter from America, Mark Kollar** writes about the rise of continuation funds as a strategy in itself.



Crypto managers win big in May

With US equities hitting new highs, May was an impressive month for equity-weighted hedge funds as the HFRI Fund Weighted Composite Index closed +1.3%, but top of the leaderboard were the crypto managers. To read our market review, [click here](#).

In May the HFRI Equity Hedge Index rose +2.5%, as managers bounced back from April's struggles, taking the year-to-date figure to +6.1%. After a trickier April, tech-focused funds were also back, +3.2%, followed by Energy and Basic materials, as well as Value, which were both up +3.1%.

Event-driven was up +1.6%, a figure that was somewhat weighed down by Activist managers being flat for the month. Multi-strategy, however, was +2.4%, and Distressed/ Restructuring was +1.7%.

After April's strong performances, Macro managers fared less well in May, -0.7%, but are still +6.5% for the year, marginally ahead of equity managers. In the core sub-strategies, Systematic struggled, -1.3%, while Discretionary was just up, +0.2%. The one notable sub-strategy to perform was Active Trading, which closed the month +2.7%.

Relative Value was up 0.6%, with all sub-strategies in positive but largely muted territory. One that stood out was Yield Alternatives, +2.8%.

Regionally, Asia, excluding Japan, was the best performing, with the Index +2.1%. Japan, however, was very marginally negative, -0.1%. North America was +1.9% and Western/ Pan Europe, +1.2%. Beyond Japan, the other two red figures were India and LatAm, -1.4% and -1.5%, respectively.

Regardless, the best-performing index was the HFR Cryptocurrency Index, +13.6%, as managers profited from rising crypto prices and less scaremongering from the regulators.

Upcoming Events

17 June 2024
GreenFin 224

17 June 2024
ALTSNY

18 June 2024
The Global Borrowers & Bond Investors Forum 2024

20 June
ALFI Next Gen

20 June 2024
Future of Finance 2024 (FT Live)

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

66%

Medallion Fund's compounded annual growth rate 1988-2018

Source: Greg Zuckerman

\$8.5bn

Elliott Investment Management's latest fundraise

Source: Business Insider

Goldman raises \$20bn for private lending

One of the biggest total fundraises of the past month is Goldman Sachs Asset Management's \$20 billion raise for senior direct lending. This figure includes \$13.1 billion for their direct lending fund, West Street Loan Partners V, as well as \$550 million for co-investment vehicles and \$7 billion for large-cap senior direct lending managed accounts. The growth of private credit lending continues to boom, with Goldman's just the latest big bank to report such fund raising. Reuters reported in March on Goldman's ambition to build a \$300 billion private credit business, up from \$130 billion. So far, West Street Loan Partners V has committed \$4 billion across 37 portfolio companies.

Carlyle closes fifth Japan buyout fund

Carlyle Group is the latest PE house to build its Japan exposure, closing its largest-ever Japan-focused buyout fund at \$2.8 billion. Carlyle Japan Partners V is more than 70% larger than the previous vehicle and only started fundraising a year ago. The fundraising is above its target and includes both domestic and global investors. The fund will look for equity investments of between ¥20 billion and ¥50 billion, alongside select large buyouts.

EQT raises \$1.6bn commitments for Asia mid-market buyout

Another Asia-focused fund to close its fundraising is EQT Private Capital Asia Mid-Market Growth (MMG) Fund. EQT has raised more than double its target, closing at \$1.6 billion in total fund commitments. The MMG strategy invests in high-growth mid-market companies across Asia and is a natural extension of EQT Private Capital Asia large-cap buyout strategy, one of the few scaled pan-Asian investment strategies dedicated to mid-market control buyouts. It employs the same thematic investment approach, focused on tech, services, healthcare, and tech services sectors. Existing investors in the flagship Asian large-cap buyout funds accounted for over 80% of the total commitments, with the remainder coming from investors in other EQT funds.

Patient Square Capital looking for \$6bn

According to reports, Patient Square Capital is looking to raise a \$6 billion healthcare fund. Patient Square Capital was launched in 2020 by Jim Momtazee, a 21-year KKR veteran. Based in Menlo Park, California, Patient Capital's previous fund closed at \$3.9 billion. Goldman Sachs has been named as one of the LPs committed to this vehicle.

UPDATES (cont.)

Family office concerns over geopolitical conflict

The latest UBS family office report shows the worries and positioning of global family offices. The leading report combines the views of 320 single-family offices across seven regions worldwide.

What it shows is that family offices are making significant shifts in strategic asset allocations in 2023 as they rebalance their portfolios. While North America continues to be the most prominent regional allocation, Asia

Pacific has been gaining prominence.

Allocations to developed market fixed income also the most significant increase in five years, while real estate allocations declined as commercial real estate prices continues to correct globally.

The chief concerns among family offices are geopolitical conflicts, climate change and high debt levels.

We have written before about the growing importance of sustainability in this space, and the report backs this up, showing it to be an ever more critical area of focus. Their sustainability approach is driving risks and opportunities in the operating businesses and investment portfolios, with healthcare the top sustainability theme, followed by climate-related topics.

PE spreading the wealth

It is not everyday that you read about private equity firms spreading the wealth, but it is going on behind the scenes. Blackstone has announced plans to grant equity to most employees in its US buyouts. This move is part of a growing trend in the private equity world, which is increasingly seeing ownership expand beyond just management.

It is not the first time Blackstone has done this, but it is the first time it is across the group investments, starting with the 18,000 employees at Copeland that Blackstone acquired in a \$14 billion deal.

KKR took the lead on this front back in 2011 and has very recently broadened it out globally. KKR is also a founding member of Ownership Works, which launched in 2022 to promote shared ownership that now includes 19 private equity firms, including KKR, Apollo, Ares and Silver Lake, but interestingly not Blackstone.

To get equity, employees must cross certain thresholds, with the amount made based on the firm's return on a particular investment.



Ackman plans to IPO in 2025

Are markets ready to embrace a new wave of alternative listings? That is the question Bill Ackman is asking as he looks to list his hedge fund Pershing Square.

As The Wall Street Journal writes, this is a 'rare hedge fund firm listing' that will capitalise on Ackman's social media fame.

The IPO is not happening anytime soon, with late 2025 mooted as the earliest. Ackman has just sold a 10% stake in the firm, valuing the business at \$10 billion. This is a bullish valuation given the firm's AUM stands at \$16.3 billion. In comparison, Blue Owl's market cap is \$24.7 billion and it manages over \$174 billion.

Some of the money raised from this pre-IPO fundraising will be invested in the US closed-end fund, Pershing Square USA.

Ackman and 17 other partners own Pershing Square.

UPDATES (cont.)

Remembering Jim Simons: The Extraordinary Life of a Quant Pioneer and Philanthropist

On May 10, 2024, we bid farewell to Jim Simons, a legend in mathematics, hedge funds and philanthropy.

Simons passed away at the age of 86, leaving behind a legacy that is difficult to encapsulate in mere words. From his early brilliance in mathematics to his revolutionary contributions to the world of investment, Simons' life was marked by extraordinary achievements.

Born in 1938, Jim's exceptional talent in mathematics was evident from a young age. He went to MIT and later earned his PhD from the University of California, Berkeley. Throughout his academic journey, Simons made significant contributions to the field of mathematics.

Simons' early career involved breaking codes for the National Security Agency and running the maths department at Stony Brook University, but it was his move into finance that made his name.

In 1978, he founded Monemetrics, which later evolved into Renaissance Technologies, AKA RenTech. This groundbreaking hedge fund revolutionised quant investment with an exceptionally pure approach to science and mathematics rather than traditional finance.

Within RenTech, the almost mythical Medallion Fund has achieved an unparalleled track record, averaging 66% gross returns per annum for over 30 years. The proprietary

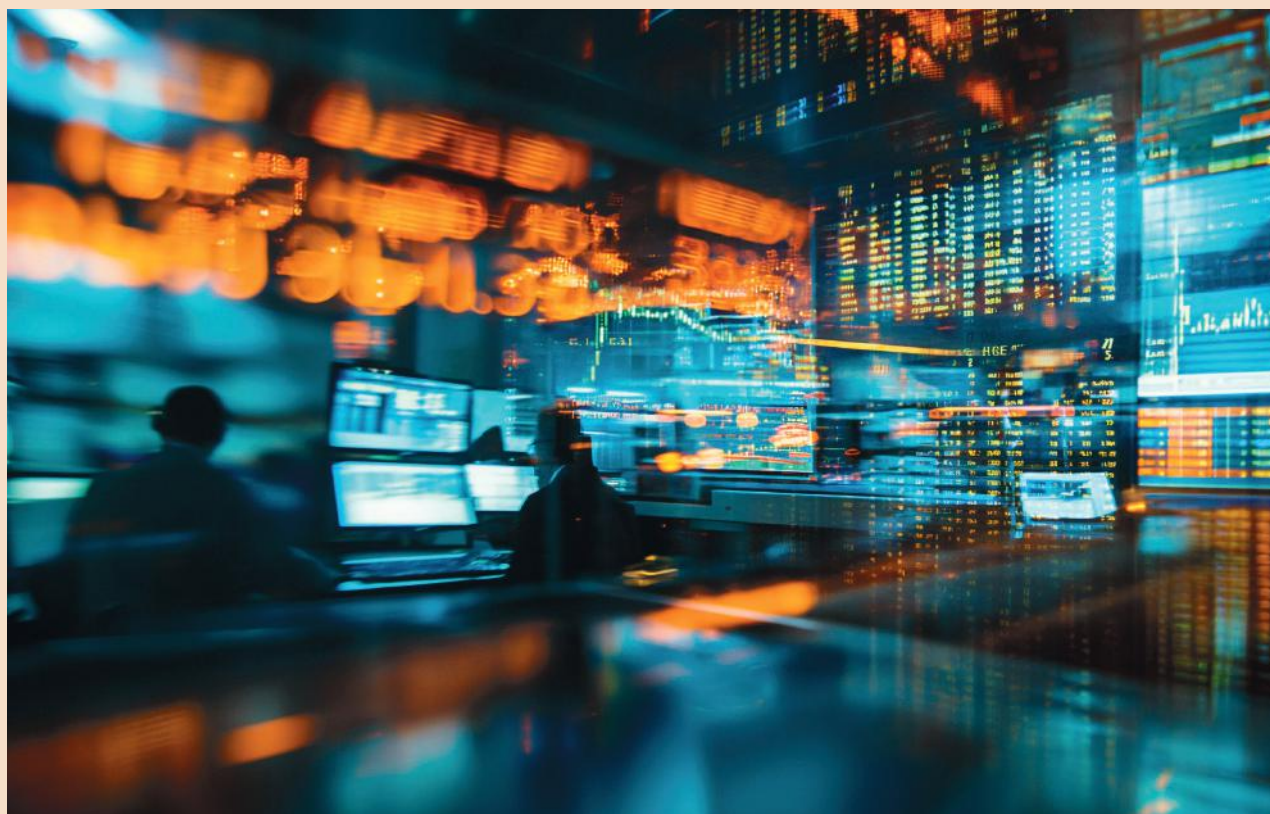
algorithms remain shrouded in secrecy but were combined with exceptionally clean historical and current datasets. The fund's success led to it becoming largely an internal vehicle, primarily serving a select group of investors with an off-the-scale charging structure of 5% management fee and 44% performance fee.

Simons' edge was his extraordinary understanding of complex mathematical models, not being afraid of taking his own path, as well as surrounding himself with like-minded souls, who had the same interest and foundation in maths and statistics.

However, RenTech's success and Simons' wealth were not his ultimate legacy. Instead, they were a means to an end that allowed him to donate billions of dollars to causes close to his heart, particularly in math and science research and education. To quote Simons, "Giving back and making a positive impact on the world is a responsibility we all have."

In 1996, he established the Simons Foundation and ran other initiatives such as the Simons Foundation Autism Research Initiative and Math for America, which will continue to carry his mission forward, impacting countless lives.

Simons' brilliance, curiosity, and generosity have left an indelible mark on the world. His work and giving will continue to inspire mathematicians, scientists, and those fortunate enough to have known him for generations to come.



UPDATES (cont.)

Shadow falls over JCI

Elliott Investment Management has taken a \$1 billion-plus stake in the industrial firm Johnson Controls. According to analysts, Elliott could be looking to remove the CEO, George Oliver, who has overseen JCI stock gains of almost 90% in the past five years. This is in line with the S&P 500 index but has more recently lagged the performance of some of its peers. Pressure is building on the management, with Reuters reporting that another activist, Soroban Capital, has also been building a stake.

Elliott looking for cash from TI

Another business in the Elliott Investment Management spotlight/crosshairs is Texas Instruments (TI), which recently announced a \$2.5 billion investment in the Dallas-based semiconductor business. Elliott believes that TI's shareholder returns have underperformed against peers, with its recent

expansion putting pressure on free cash flow as well as lack of long-term growth plans. To alleviate this, Elliott proposes that the firm adopt a dynamic capacity management strategy to generate free cash flow per share as a measure of business performance.

Elliott raises \$8.5bn

Elliott Investment Management has raised \$8.5 billion for its latest dry powder fund. Business Insider has lifted this from a 30 April investor letter, writing that Elliott can call these funds at any time over the next two years. Elliott today manages \$65.5 billion.

Softbank stake

It is tricky to not make this an Elliott edition, but they are once more building a sizeable stake in SoftBank. Elliott's previous position was in 2020 totalling \$2.5 billion. What Elliott really wants is a \$15 billion buyback.

Big bucks launch

There have not been that many multi-billion dollar launches over the past few years, so it was encouraging to see Taula Capital Management launch on 1 June with \$5 billion. The fund, which was set up by former Millennium Management's Diego Megia, has been backed with \$3 billion from Millennium and closed to new money on its first day. The next big fund launch looks to be Bobby Jain's who has had to pare back his fund raising ambitions.

Funds go long commodities

Over the past year, we have seen growing interest among multimanager hedge funds in commodities. This comes as commodities are going through a cyclical upturn, as well as becoming more volatile, with copper prices hitting all-time highs on China demand/ spec trading and cocoa futures hitting highs on poor harvests in West Africa.

Bobby Jain has said that up to 20% of the \$5 billion he is looking to raise will be invested in commodities, with Bloomberg writing that the initial exposure will be commodity derivatives before moving into physical.

Brevan Howard has also been building its commodity business, announcing plans for a \$750 million push into this area and is cherry-picking traders.

Likewise, BlueCrest Capital is expanding its commodity trading teams, as is Millennium Management, which last year hired Goldman Sachs' Anthony Dewell to head up the firm's commodities business, with a punchy ambition of taking on Citadel on this front.



Inspiring interviews with global business and finance leaders

Top 1% of all podcasts

Source: Listen Notes



We're arguably the world's largest and most active investor in bio solutions... so it's using microbes, whether they be enzymes, bacteria, peptides for industry. And so they take the place of fossil fuel based and synthetic solutions.

Kasim Kutay, CEO, Novo Holdings



UPDATES (cont.)

Capital Group and KKR turn to wealth markets

As alternative managers increasingly look to broaden their investor base, we are seeing a material increase in the number and type of products being made available.

A good example is Capital Group's recently announced strategic

partnership with KKR, which enables investors to incorporate alternative investments into their portfolios. This vehicle is a hybrid public-private markets investment solution available to investors across multiple asset classes, geographies and channels.

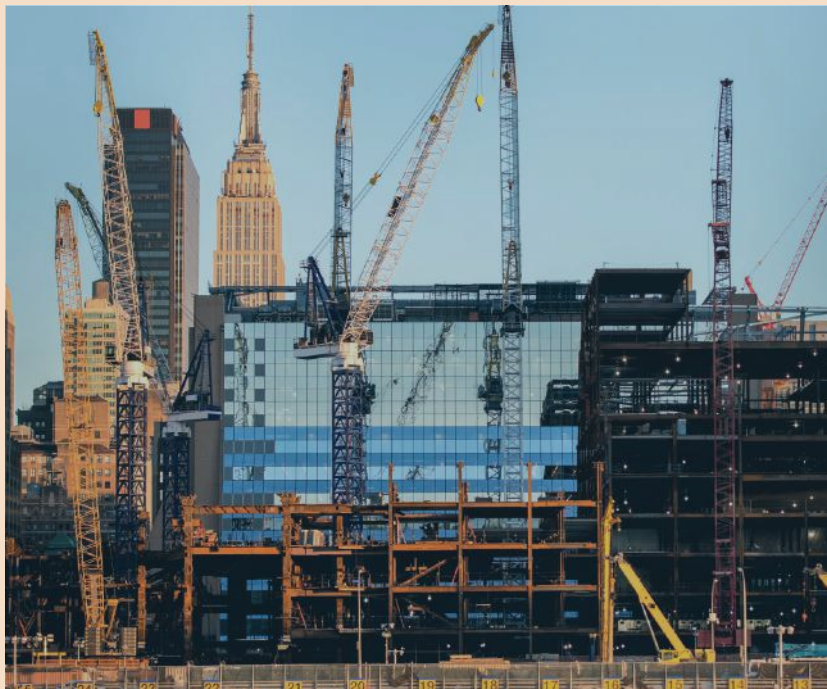
The first two strategies will be public-private fixed-income offerings designed for financial professionals and their clients, which are expected to launch in the US in 2025.

Starwood gate now at 0.33%

The Starwood Capital property fund has put up tighter gates as it seeks to stem outflows.

Although gates were initially put up in October 2022, limiting redemptions to a 2% threshold, the liquidity problems have not gone away, with the gate now tightened to 0.33% of net asset value. This move has been positioned as temporary, which they say will last six to 12 months.

The \$10 billion property fund, run by Harry Sternlicht's Starwood Capital, wants to avoid a firesale as well as maintain its liquidity with property investments spanning the globe. It is also cutting its management fees.



Crypto exposure

According to data from Bitcoin brokerage River, the largest US hedge funds have \$2.6 billion in Bitcoin ETF shares. Filings show that both Millennium and Elliott are holding Bitcoin ETFs, with 13 of the top US hedge funds investing in this market.



LETTER FROM AMERICA

prosek

To Be Continued: A Secondaries with a Twist Gains Traction

At the Milken conference last month in Beverly Hills, cocktail-party talk ranged from the impact that generative AI is making on the investment world to the Elon Musk panel, where the maverick discussed how declining birth rates are a warning sign for civilization in much of the developed world.

But another conversation was also developing on a more niche topic for private markets about whether continuation funds – also referred to as GP-led secondaries – were not just gaining traction as a strategy for private-equity sponsors but even winning acceptance as a strategy that benefits both General Partners and Limited Partners alike.

The old PE playbook at one time suggested that portfolios hold investments for anywhere from three to five years in order to implement value creation and then sell those companies to return capital back to the LPs.

That thinking seems to be changing. The GP reasoning follows that if a few companies in a portfolio are still scaling their businesses with good upside potential, then why not hold on to them for a while to realize more value even though it may be past the shelf life of the old playbook time period. As one manager said, “This is about building champions.”

According to industry estimates, as much as \$40 billion of deals were completed in 2023, with more than \$150 billion worth of transactions in the market in total so far. By some predictions and admittedly on the high end, the continuation funds or vehicle market is poised to hit as much as 20 percent of total M&A activity, a long runway from now for sure, but proponents see this as reasonable.

So how does this all really work?

A sponsor sells one or more of its portfolio companies in a fund to a newly formed continuation fund that is set up specifically for these investments,

which will continue to be managed by that sponsor. It's kind of like the best asset for a GP may be to actually to buy back its best asset, in a circulate twist on an exit.

For the GP, the benefit is simple: extend the portfolio life of the best investments to generate additional value and liquidity. For LPs, this type of new fund allows them to continue to leverage the sponsor's experience with this investment and even negotiate new deals terms that may align better with current interests.

All LPs, of course, do not have to participate in the continuation fund and may cash out as planned. New LPs will likely join the vehicle as well.

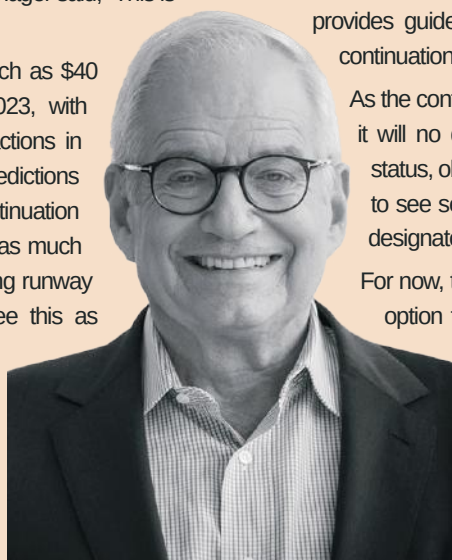
Amid claims for steady growth in this strategy, detractors exist especially on the subject of conflicts of interest or even the perception of conflicts. Upon reflection, these are pretty easy to figure out: The GP actually has interests on both sides of the deal as the seller of the fund and buyer/manager of the continuation vehicle. Investors may raise issues on pricing and terms, among other topics. The best protection against

these concerns is to present constant updates on each step in the process to all parties and provide rationale for all decisions. In fact, the Institutional Limited Partners Association or ILPA provides guidelines for best practices in managing the continuation fund process.

As the continuation-funds market grows and matures, it will no doubt start to lose some of its generalist status, observers say, noting we are already starting to see sector specialist move money into separate designated funds.

For now, the strategy is destined to grow as another option for GPs to extract value, even if it is on a longer-time continuum.

“
... if a few companies in a portfolio are still scaling their businesses with good upside potential, then why not hold on to them for a while to realize more value...”



Mark Kollar
Partner, Prosek Partners

GUEST ARTICLES

Empowering Women Entrepreneurs. It's about time!

Alexandra Daly & Peter Soliman, Co-Founders, Arosa Capital

In recent years, the United Kingdom's venture capital scene has been under intense scrutiny, with calls for more inclusive and diversified investment practices. The 2019 Rose Review of Female Entrepreneurship highlighted the persistent gender funding gap and its broader implications for the UK economy. Having regard to the key findings of the Rose Review, and the subsequent industry reports and initiatives inspired by that work, this article explores why funds dedicated to supporting female entrepreneurs are not only a step towards social justice, but also a strategic investment opportunity.

Key Findings of the Rose Review

The Rose Review undisputably reported a significant underrepresentation of female entrepreneurs in receiving venture capital funding – women receive around 2% of VC funding globally –

and yet even with the light beaming over this social issue that number still has not changed much in almost 10 years. Despite women founding or co-founding numerous innovative startups, the investment flow into these ventures from the UK's venture capital ecosystem has been disproportionately low. This gender funding gap may be considered a social injustice, but it also represents a missed economic opportunity for the country – if women started and scaled new businesses at the same rate as men, £250 billion of new value could potentially be added to the UK economy.

Implications for UK Venture Capital

By expanding funding to female-led startups, venture capitalists are able to tap into a wider array of innovative ideas and business models, potentially enhancing total returns, and this aligns with the broader financial principle that a varied portfolio is more resilient and capable of generating attractive returns.



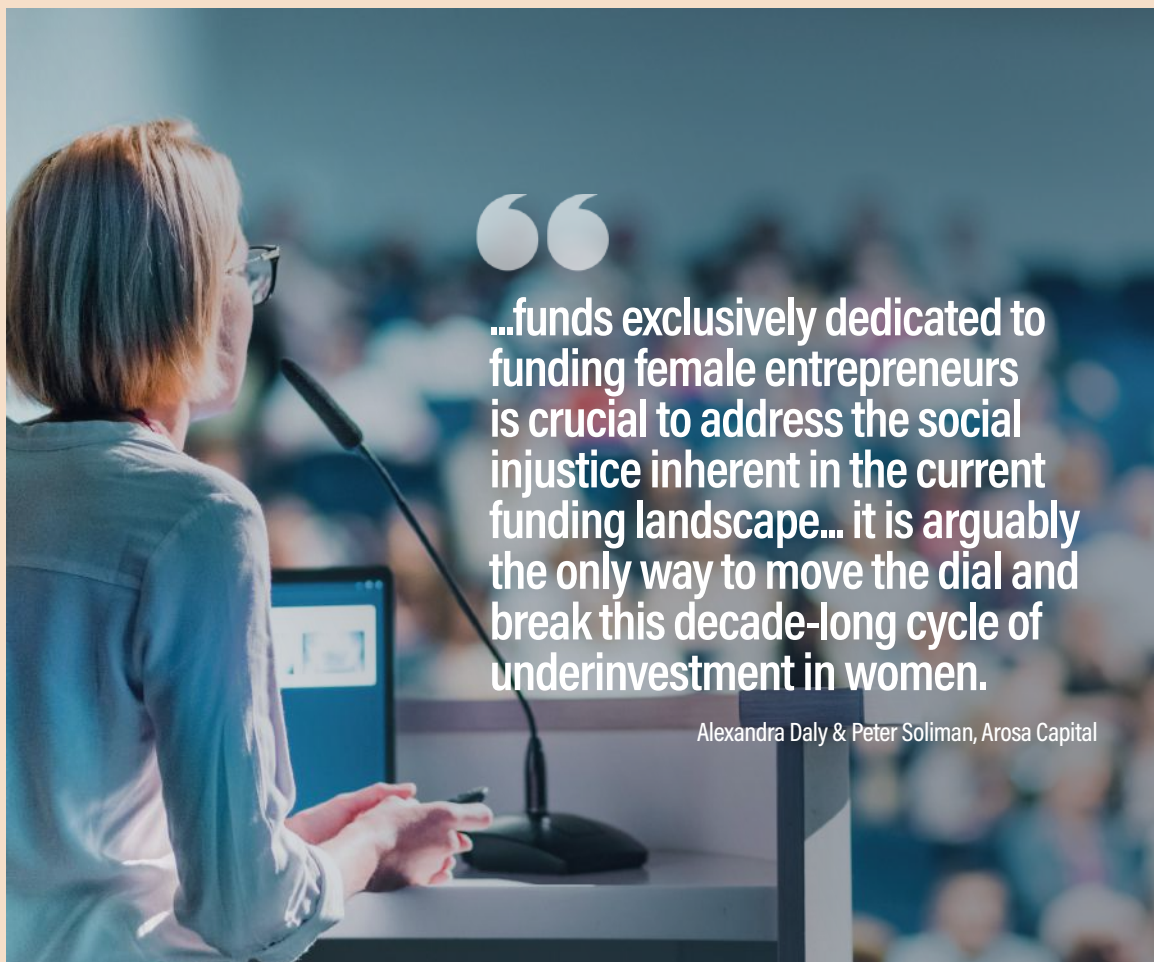
Alexandra Daly, Arosa Capital



By expanding funding to female-led startups, venture capitalists are able to tap into a wider array of innovative ideas and business models, potentially enhancing total returns...

Alexandra Daly & Peter Soliman, Arosa Capital



GUEST ARTICLES (cont.)**Addressing Social Injustice and Economic Efficiency**

The establishment of funds exclusively dedicated to funding female entrepreneurs is crucial to address the social injustice inherent in the current funding landscape, and they also represent a pragmatic approach to the problem – it is arguably the only way to move the dial and break this decade-long cycle of underinvestment in women.

The Impact of Female-Entrepreneur-Exclusive Funds

Funds dedicated to female entrepreneurs are not merely a gesture towards equality; they are a strategic investment in the future of innovation. Female entrepreneurs often bring unique perspectives, addressing market needs that may be

overlooked by their male counterparts. Investing in these ventures can lead to the development of groundbreaking products and services, enriching the market and society.

Moreover, such initiatives shine a spotlight on the capabilities and achievements of female entrepreneurs, challenging stereotypes and inspiring future generations. The narrative shift to viewing female-led startups as untapped opportunities is crucial for fostering a more inclusive and equitable venture capital ecosystem.

Looking Forward

The Rose Review ignited a critical conversation about gender inequality in venture capital funding.

Funds dedicated to female entrepreneurs are not just a nod towards social justice; they are a testament to the untapped potential that, when realised, can drive significant economic growth and innovation. As the UK venture capital industry evolves, these initiatives will play a pivotal role in shaping a more diverse,



Peter Soliman, Arosa Capital

GUEST ARTICLES (cont.)

dynamic, and prosperous economic future.

Among those leading the charge in transforming the venture capital landscape is Arosa Capital, which has taken the Rose Review's findings to heart, promoting not one but two venture capital funds to invest exclusively in women-led businesses, underpinned by robust support from The Council for Investing in Female Entrepreneurs – this influential body is dedicated to its principal goal of encouraging UK-based institutional and private investors to back female entrepreneurs actively, and has sponsored the important work which has led to the Invest in Women Hub¹, the go-to destination for women seeking to raise capital.

Beyond financial investments, Arosa Capital will also sponsor a community-interest-company to launch a number of strategic programmes designed to empower women considering the entrepreneurial path or a career in investment management, and to support those who have already embarked on this journey. These initiatives will complement the vital initiatives of Council members

and are crucial in creating a nurturing ecosystem where female entrepreneurs can thrive and foster a community of like-minded individuals committed to diversity and innovation.

The collaboration between Arosa Capital and The Council for Investing in Female Entrepreneurs represents a significant stride towards closing the gender funding gap, contributing to a more inclusive and equitable venture capital ecosystem, leveraging a largely untapped opportunity to foster economic growth, innovation, and superior returns for investors.

**Alexandra Daly & Peter Soliman, Co-Founders,
Arosa Capital**

¹iwhub.com - an online destination for women thinking about starting out or seeking the all-important finance they need to take the next step



The Rose Review ignited a critical conversation about gender inequality in venture capital funding. Funds dedicated to female entrepreneurs are not just a nod towards social justice; they are a testament to the untapped potential that, when realised, can drive significant economic growth and innovation.

Alexandra Daly & Peter Soliman, Arosa Capital



GUEST ARTICLES (cont.)

How Alternative Asset Managers are Working to Insure Their Future Success

Josh Clarkson, Managing Director, Prosek Partners

At the current pace of alternative asset management and insurer acquisitions, strategic partnerships and the like soon people will say that peanut butter and jelly go together like private credit and annuities. In fact, it is now nearly table stakes for a large GP to have some type of insurance component to its growth strategy.

While the reasons for the appeal of these alliances largely all center around the synergies between long-term liabilities seeking to outearn their cost of capital and private markets firms who seek outsize returns in exchange from assets with varying degrees of illiquidity, the form and substance of them vary. Below, we will delve into these different models and benefits and risks for GPs, insurers, managers who wholly own insurers, and their shareholders.

While insurers had long had a role directly investing in less liquid assets,¹ the current wave² of convergence began in 2008 when Apollo set up Athene, its now wholly owned insurance platform, to acquire and originate annuities whose premiums could be invested in higher returning portfolios managed by Apollo. This provided Apollo with a long duration capital base while giving Athene the ability to offer annuitants higher returns, given their ability to deploy the investment portfolio into directly originated private assets and other sectors insurers had traditionally not

invested in heavily, and generate Spread Related Earnings (SRE) for the benefit of Apollo shareholders.

In the following years, others saw the attractiveness of this model and launched or bought similar platforms. Many originally grew through purchasing existing blocks of insurance from insurers looking to reduce their exposure, often at attractive valuations given public investors distaste for these exposures at the time. As the popularity of this strategy grew, the valuations for such blocks³, and for annuity platforms have increased, now many alts backed insurers both purchase blocks and originate new business through multiple channels.

The cornucopia of alts/insurer tie-ups vary in their structure but the most prevalent area of focus are fixed and fixed index annuities, a \$3.3 trillion market in the US. However as these blocks have become more sought after some have purchased variable annuity and whole life blocks, which introduce different asset liability matching risks. Some also focus on reinsurance.

¹In fact, Adolph Ochs, whose family has controlled the New York Times since 1896, took over the paper with no personal equity investment and instead creative financial engineering and debt from parties including insurers. Alas, journalists employed by his descendants take a dimmer view of such loans.

²There were a spate of hedge fund backed reinsurers prior, which never really took off

³While beyond the remit of this article, such transactions are often at valuations higher than an insurers equity is valued at enabling public insurers to sell blocks to fund buybacks, which is generally well received by the market

“

...it is now nearly table stakes for a large GP to have some type of insurance component to its growth strategy.

Josh Clarkson, Prosek Partners

GUEST ARTICLES (cont.)

One of the main points of differentiation among large managers is whether to wholly own an insurer (e.g. Apollo/Athene or KKR/Global Atlantic) or to have strategic partnerships, often supplemented with an equity investment, with one or more insurers (this can be with established insurers as Blackstone as done or by investing in de novo platforms alongside outside investors as others have done).

Each approach has pros and cons. The wholly owned approach enables managers benefit from spread related earnings, on an LTM basis Apollo earned \$3.2 billion in SRE and \$1.8 billion in FRE⁴, and have greater control.

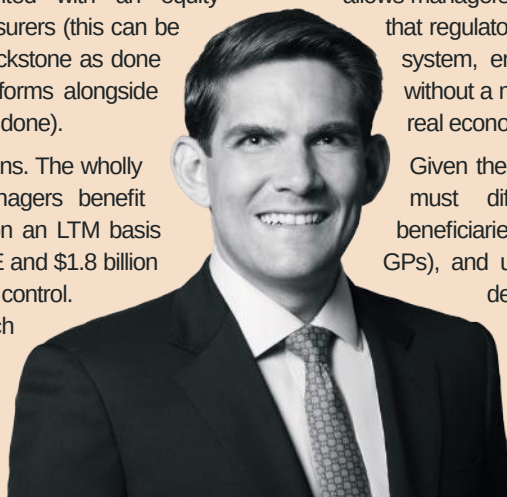
However, this also requires a much larger initial investment and adds balance sheet risk for the GP. The partnership approach on the other hand enables the GP to remain relatively asset light, and scale quickly with a lower upfront investment.

Either way, a key to success is for the manager to originate sufficient suitable⁵ assets to support the insurance liabilities and drive outperformance while also ensuring the safety of the portfolio to protect beneficiaries and avoid regulatory intervention. On the liability side in an environment of increasingly expensive block purchases it is important that insurers have a range of origination capabilities, with many now building out direct sales forces.

Meanwhile, regulatory and multilateral organizations ranging from the National Association of Insurance Commissioners to the IMF⁶ have an interest in this trend. While it is certainly appropriate for regulators to closely monitor these developments, thus far the sector has proven resilient and has delivered for annuitants. This is especially

important given demographics in many developed countries are leading to a looming retirement crisis. At the same time, the long term nature of life insurance liabilities allows managers to support many types of lending that regulators are pushing out of the banking system, enabling greater systemic stability without a massive contraction of credit in the real economy.

Given these crosscurrents, these platforms must differentiate their message to beneficiaries, investors (in the case of public GPs), and users of their capital, as well as demonstrate the benefits of the model to regulators. Accordingly, alternative asset managers and the insurers they are affiliated with should thoughtfully and vocally communicate their value proposition to all of these important constituents.



Josh Clarkson, Prosek Partners

In summation, the melding of insurance and alternative asset management appears to be a change that is here to stay and one that should benefit insurance beneficiaries, investors in alternative asset management businesses, and society at large.

Josh Clarkson, Managing Director, Prosek Partners

Josh Clarkson is a managing director at Prosek Partners, where he counsels clients on a wide variety of financial and strategic communications matters with a focus on alternative asset managers and, in particular, credit-oriented investment firms.

⁴FRE generally reflects the management fees earned on funds raised in its asset management business, at KKR, which took full control of General Atlantic recently, insurance operating earnings were \$884 million vs. \$2.5 billion in FRE

⁵This generally means both the types of sub investment grade credit alternative lenders traditionally focused on but also much larger volumes of IG rated credit given insurance regulations.

⁶IMF Global Financial Stability Note ([link](#))

“

...the long term nature of life insurance liabilities allows managers to support many types of lending that regulators are pushing out of the banking system, enabling greater systemic stability...

Josh Clarkson, Prosek Partners

REGULATION

Presented by

**UK**

The FCA's ambitious agenda for UK asset management: a speech from the FCA Chair

On 22 May 2024 the FCA Chair, Ashley Alder, [addressed](#) the Bloomberg Buy-side Forum on the FCA's "ambitious agenda" for UK asset management. This follows a similar [speech](#) he delivered at the Investment Association's Annual Dinner in October 2023.

Buy-side firms play a vital role in the wider economy, securing the financial wellbeing of many while making decisions that are essential to capital formation.

UK asset managers are currently responsible for £11 trillion of mainstream assets and £2 trillion of alternative assets.

Using the opportunities presented by the Smarter Regulatory Framework ("SRF"), the FCA intends to modernise and enhance asset management regulation to meet the needs of the UK market.

Smarter Regulatory Framework, including AIFMD reform

Asset management regulation is contained in assimilated EU law through an "alphabet soup" of Undertakings for Collective Investment in Transferable Securities ("UCITS"), Alternative Investment Fund Managers Directive ("AIFMD") and some parts of the Markets in Financial Instruments Directive ("MiFID") – areas in which the FCA is working through a process of repeal and replacement.

Last year, the FCA set out some initial ideas for reform in [DP23/2, Updating and improving the UK regime for asset management](#).

Respondents wished the UK to remain broadly aligned with EU rules, especially for retail funds, where the UCITS framework forms an established common denominator. The

UK regime needs to be interoperable internationally.

However, some sought greater proportionality in the regime for alternative managers, wherein lies the greatest potential for reform.

The AIFMD regime was developed mostly for professional investor funds but in practice, covers a broad range – not just hedge funds and private equity firms, but also some retail funds and investment trust managers. The FCA aims to set requirements proportionate to the risks of specific business models, recognising that institutional investors are better equipped to manage these risks for themselves.

Whilst not mentioned by Mr. Alder in his speech, the FCA intends to publish a Consultation Paper on amending the AIFMD regime and re-evaluating the AIFMD rules for non-UCITS retail funds during Q3, 2024.

Private Finance, Non-Bank Financial Intermediation ("NBFI") and Valuations

While streamlining the rules for alternative funds, the industry needs to have confidence in the quality of an asset management sector that spans a vast array of business models in both public and private markets.

However, the level of risk depends on the part of the sector. A global effort is needed to improve data so that regulators can spot risks in these markets and supervise them credibly.

The FCA is reviewing private markets on both global and domestic levels. Inherent conflicts may lead to harms, and the potential for incentives may adversely affect approaches to valuations.



REGULATION (cont.)

Presented by

**Retail Investments**

A regime replacing the Packaged Retail and Insurance-based Investment Products (“**PRIIPs**”) Regulation should offer investors meaningful information to inform their decision making. The FCA will consult on a new regime that is proportionate and tailored to the UK market and products.

Sustainability Disclosure Requirements (“SDR”)

80% of investors would like their money to do good, as well as provide a return. This new disclosure and labelling regime should help them make confident investment decisions, ensuring that firms' sustainability claims are true.

The FCA will work with international counterparts as they develop similar rules, and with HM Treasury as it considers extending the SDR to overseas funds. Ultimately, the FCA seeks a level playing field for all firms operating across the UK market.

Innovation

The government's Asset Management Taskforce is looking into how fund tokenisation might be implemented in the UK, which is increasingly an industry hot topic that [The Alternative Investor](#) has previously covered.

Conclusion

Mr Alder referenced the FCA's secondary growth and competitiveness objective, considered at every stage in the decision-making process.

He mentioned in passing the greater retail access given to long-term asset funds (“**LTAfs**”) and the implementation of the Overseas Funds Regime.

These all contribute to the FCA's “*overall aim that the asset management sector continues to thrive and grow, delivering for the end consumer and the UK economy as a whole*”.

Market Watch 79

On 9 May 2024, the FCA published [Market Watch 79](#), the latest newsletter in its series on market conduct and transaction reporting issues.

This focusses on two themes:

- Failures in market abuse surveillance, owing to issues with factors like data and automated alert logic; and
- The FCA's peer review of firms' testing of front-running surveillance models.

The Market Abuse Regulation (“**UK MAR**”) requires firms to identify and report occurrences of potential market abuse and to maintain effective systems and procedures for detecting and reporting suspicious activity proportionate to the scale, size and nature of their business.

In recent years, it has come to the FCA's attention that surveillance alerts do not always work as firms intended – sometimes, due to software bugs, or faulty implementation – such that the data required for successful monitoring has not been ingested. It found failures both with third-party systems and those designed in-house. Some firms swiftly discover and remedy these issues but, in extreme cases, firms have remained unaware for two years or more.

The FCA found most, but not all, of the reviewed firms had formal procedures covering testing frequency, which elements of the model were subject to review, and the form of the review.

Most undertook an annual test, and some firms used a risk-based approach, where testing frequency depended on the inherent risk of the relevant market abuse type.

To avoid surveillance failures and undetected weaknesses, the FCA recommends risk mitigation measures around:

- Data governance, including:
 - » How does the firm ensure all relevant trade and order

data is captured?

- » Does the firm have procedures to regularly check and identify any issues that occur?
- Model testing, including:
 - » Should testing of models involve parameter calibration, logic, coding or data, or a combination?
 - » Is it preferable to conduct more frequent light-touch testing, or less frequent deep dive reviews?
 - » Should firms consider a risk-based approach when designing testing policies and procedures, or selecting models for testing (and the frequency and depth)?
- Model implementation and amendment, including:
 - » What type of testing is undertaken before introducing new surveillance models, or amendments to them?
 - » Is testing sufficiently formalised and robust, without being so onerous as to hinder rapid action to implement, modify, recalibrate and fix surveillance models?
 - » When changes are made to other systems, that might adversely affect market abuse surveillance systems, is regression testing done?

The FCA recognises the many forms of market abuse surveillance across the industry, and its challenging and complex nature. However, it has observed that not all firms are allocating sufficient focus and resource to governance arrangements in this area.

Furthermore, firms must be vigilant and should proactively guard against surveillance failures, their governance keeping pace with innovation and artificial intelligence.

REGULATION (cont.)

Presented by

**Stuart Bayes sentenced for insider dealing**

On 28 March 2024, Stuart Bayes, a site manager at UK plastic manufacturer RPC Group Plc (“RPC”), was [convicted](#) of two offences of insider dealing, following an 8-week trial at Southwark Crown Court in a prosecution initiated by the FCA. On 10 May 2024, he was [sentenced](#) to 18 months’ imprisonment, suspended for two years, given a Rehabilitation Activity Requirement of 35 days, and required to complete 150 hours of unpaid work.

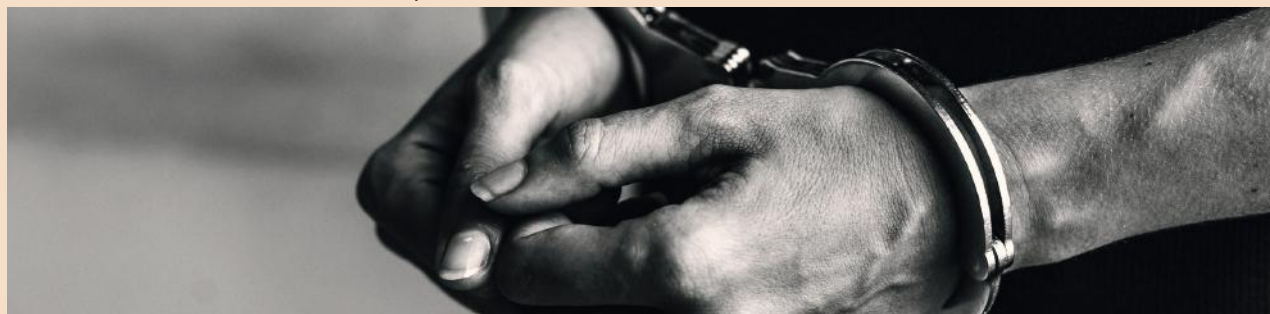
Through his employment, Mr Bayes obtained “inside information” that RPC was about to announce the acquisition of British Polythene Industries (“BPI”). Ahead of the market announcement on 9 June 2016 that RPC had agreed to buy BPI, between 2 May 2016 and 8 June 2016 Mr Bayes started to trade aggressively in BPI shares and encouraged his friend, Jonathan Swann, also to trade before the market closed on 8 June. Mr Swann was acquitted on one count

of insider dealing, but Mr Bayes realised a profit of some £132,000 and was convicted on two counts of insider dealing: one of dealing, and one of encouraging Mr Swann to deal while in possession of inside information.

Insider dealing is a criminal offence punishable by a fine and at the time of the offence, up to seven years’ imprisonment: for offences committed on or after 1 November 2021, the maximum sentence is ten years’ imprisonment.

Sentencing Mr Bayes, His Honour Judge Hopmeier said: *“You deliberately and dishonestly probed for information on when the takeover would be and exploited that information for your own financial gain.”*

The FCA has commenced confiscation proceedings against Mr Bayes, with a hearing date listed for 4 October 2024.

**Trading systems and controls failures:
Citigroup Global Markets Limited fined £61.6 million**

Failures in the systems and controls of Citigroup Global Markets Limited (“**Citigroup**”) led to US\$1.4 billion of equities being mistakenly sold in European markets.

On [2 May 2022](#), a trader intended to sell a basket of equities worth US\$58 million. Owing to so-called “fat finger syndrome”, they made an inputting error when entering the basket in Citigroup’s order management system, creating instead a basket worth US\$444 billion (a figure allegedly exceeding the GDP of Denmark). One report suggests that the trader entered the value of the basket into the wrong field in the order system.

Citigroup controls successfully blocked US\$255 billion of the basket, but not the remaining US\$189 billion which was sent to a trading algorithm. The algorithm selected was set up to place portions of this total order to be sold in the market over the course of the day.

Before the trader cancelled the order, a total US\$1.4 billion of equities were sold across European exchanges. The FCA notes that this coincided with a “material short-term drop” in some European indices which lasted for several minutes. On the morning of 2 May, the Euro Stoxx 50 fell by more than one per cent in the space of just three minutes, equivalent to a loss of more than €80 billion, before a quick rebound.

Although parts of Citigroup’s trading control framework operated as expected, some primary controls did not, or were lacking. Notably, there was no hard block which would have rejected this large erroneous basket as a whole, to prevent any of it reaching the market.

Due to poor design, the trader was able to override a pop-up alert manually, without having to scroll down and read the alerts within it. Citigroup’s real time monitoring was ineffective, being too slow to escalate internal alerts about the dubious trades.

The FCA found Citigroup to have breached Principles 2⁽¹⁾ and 3⁽²⁾ of the FCA Handbook and Rule 7A.3.2⁽³⁾ of the Market Conduct Rulebook.

The [FCA](#) imposed a fine of £27,766,200, which qualified for a 30% discount as Citigroup agreed to settle and did not dispute the findings; the fine would otherwise have been £39,666,000. On the same date, the Prudential Regulation Authority (“[PRA](#)”) concluded its own investigation and imposed a further financial penalty of £33,880,000 - discounted from £48,400,000.

⁽¹⁾ Principle 2 of the FCA Handbook requires a firm to conduct its business with due skill, care and diligence.

⁽²⁾ Principle 3 of the FCA Handbook requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

⁽³⁾ Rule 7A.3.2 of the Market Conduct Rulebook requires firms that engage in algorithmic trading to have in place effective systems and controls, suitable for the business they operate.

REGULATION (cont.)

Presented by

**US**

SEC and FinCEN propose Customer Identification Program requirements

In a joint proposal with the Securities and Exchange Commission (“SEC”), the US Treasury Department’s Financial Crimes Enforcement Network (“FinCEN”) has proposed [a rule](#) that, if finalized, would require SEC-registered investment advisers (“RIAs”) and exempt reporting advisers (“ERAs”) to establish, document, and maintain written customer identification programs (“CIPs”).

Under the proposed rule, RIAs and ERAs would be required to implement “reasonable procedures to identify and verify the identity of their customers in order to form a reasonable belief that they know the true identity of their customers”. The proposal is generally consistent with the CIP requirements for other financial institutions, such as broker-dealers and mutual funds.

The CIP would include risk-based procedures for verifying the identity of each customer within a reasonable time before or after the customer’s account is opened. The procedures

would need to enable the RIA or ERA to form a reasonable belief that it knows the true identity of each customer. Certain identifying information with respect to each customer would be required to be obtained, such as the customer’s name, date of birth or date of formation, address, and identification number.

The proposed rule is designed to make it more difficult for criminal, corrupt, or illicit actors to establish customer relationships with investment advisers for the purposes of laundering money, financing terrorism, or engaging in any other illicit finance activity. It complements a separate [FinCEN proposal](#) in February 2024 to designate RIAs and ERAs as “financial institutions” under the Bank Secrecy Act (“BSA”) and subject them, among other requirements, to AML/CFT program requirements and suspicious activity report filing obligations.



REGULATION (cont.)

Presented by

**SEC adopts amendments to Regulation S-P**

The SEC has adopted [rules](#) to amend Regulation S-P, requiring Registered Investment Advisers (“RIAs”), among other entities, to adopt written policies and procedures concerning unauthorized access or use of customer information.

Regulation S-P was adopted in 2000 to safeguard customer information and ensure its proper disposal. The rule, as amended, is designed to modernize Regulation S-P to account for the technological advances that have occurred over the last 24 years.

The [amended rule](#) requires RIAs to:

- Create a written incidence response program that is reasonably designed to detect, respond, and reclaim unauthorized access or use of customer information;
- Have policies and procedures in place to notify individuals whose sensitive information was accessed or used in a way that reasonably could result in substantial harm or inconvenience as soon as practicable but no later than 30 days after becoming aware of the breach;

- Expand its disposal rules to cover non-public personal information that it collects from its customers, regardless of whether the information was collected by the adviser or the customer's financial institutions; and
- Document in writing the adviser's compliance with the safeguards rule and disposal rule.

The amended rule carves out an exception to the annual privacy practices notice to customers requirement. RIAs do not have to provide the annual privacy notice where the adviser only provides personal information to non-affiliated parties who qualify for the third party opt out exception, and the disclosure of non-public personal information policies and practices has not changed from the prior year.

Once published in the Federal Register, RIAs with assets under management of \$1.5 billion or more will have 18 months to comply with the rule, while RIAs under the \$1.5 billion threshold will have 24 months.

**National Futures Authority (“NFA”) modifies Member Questionnaire requirements**

As part of the NFA's membership application process and at least annually thereafter, all NFA Members are required to complete the NFA's Member Questionnaire (previously known as the Annual Questionnaire). The NFA has [announced modifications](#) to the Questionnaire's requirements under Compliance Rule 2-52, [Interpretive Notice 9082](#) and amended [Bylaw 301](#). The changes are effective October 15, 2024.

New semi-annual filing requirement for inactive Members

Members responding “No” to certain questions within the Questionnaire will be considered not currently conducting commodity interest business and therefore inactive. From October 15, 2024, the NFA will prominently display a Member's inactive status on the firm's profile page in the NFA's BASIC system. Inactive Members will also be subject to a new semi-annual filing requirement to ensure that information contained in the NFA's BASIC remains accurate.

The new semi-annual filing requirement for inactive Members

will first impact firms with a November 1, 2024 annual filing deadline, making the first semi-annual filing due date May 1, 2025.

Review and submission requirements

The new adoptions specifically require that sufficiently knowledgeable individuals review and submit the Questionnaire. Accordingly, Members are required to have a listed principal who is also an Associated Person review and submit the Questionnaire.

Lastly, Compliance Rule 2-52 also requires Members to promptly update any material changes to their business. The interpretive notice provides a non-exhaustive list of events that are considered de facto material, but the NFA will rely upon Members to make these individual determinations and update the Questionnaire accordingly.

REGULATION (cont.)

Presented by

**SEC charges registered investment adviser and founder with failure to disclose conflicts of interest**

The SEC announced [settled charges](#) against registered investment adviser Hudson Valley Wealth Management Inc. (“**Hudson Valley**”) and its founder for failing to disclose conflicts of interest and making misleading statements, violating their fiduciary duty to investors.

From 2017 to 2021, the firm advised its clients to invest in films produced by a specific production company, which paid Hudson Valley's founder over \$500,000 for recommending the production company to his clients.

The SEC alleges that the firm failed to disclose these payments and later misrepresented the payments as money received by the founder from his role as an executive producer.

Separately, in May 2021 Hudson Valley satisfied one redemption request out of several simultaneous private fund investor requests. The SEC argues that by granting one redemption request and denying others, the firm gave one client preferential treatment in violation of its fiduciary duty to its other clients.

For these actions, the SEC found Hudson Valley and its

founder to have violated the antifraud provisions of the Investment Advisers Act of 1940. Hudson Valley was fined \$200,000 for its actions, while its founder was fined \$750,000. Both parties agreed to cease-and-desist orders and censures.



Click [here](#) to subscribe to The Alternative Investor; or if you have a question about the publication or a suggestion for a guest article email the team at hello@alternativeinvestorportal.com.



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 Pernal, the Brodie team has extensive experience advising funds on all aspects of their brand, marketing and communications.

Alastair Crabbe**Director**

Brodie Consulting Group

+44 (0) 778 526 8282

acrabbe@brodiecg.comwww.brodiecg.comwww.alternativeinvestorportal.com

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.

Jonty Campion**Director**

Capricorn Fund Managers

+44 (0) 207 958 9127

jcampion@capricornfundmanagers.comwww.capricornfundmanagers.com

RQC Group is an industry-leading cross-border compliance consultancy head-officed in London with a dedicated office in New York, specializing in FCA, SEC and CFTC/NFA Compliance Consulting and Regulatory Hosting services, with an elite team of compliance experts servicing over 150 clients, and providing regulatory platforms to host over 60 firms.

United Kingdom:

+44 (0) 207 958 9127

contact-uk@rqcgroup.com

United States:

+1 (646) 751 8726

contact-us@rqcgroup.comwww.rqcgroup.com

Capricorn Fund Managers and RQC Group are proud members of



Editorial Board

Alastair Crabbe

acrabbe@brodiecg.com

Darryl Noik

dnoik@capricornfundmanagers.com

Jonty Campion

jcampion@capricornfundmanagers.com

Lynda Stoelker

lstoelker@capricornfundmanagers.com

Visit www.alternativeinvestorportal.com to see past publications, industry events and more.

Click [here](#) to subscribe to all future copies.

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

