April 2023

The Alternative Investor

Performance
News
Trends
Regulatory updates

Mensis horribilis for macro & trend followers

In this edition, **bfinance's Kathryn Saklatvala** writes about investor hesitancy as investors wait to see where the environment is heading; **AIMA's Claire Van Wyk-Allan** offers up the Global Investor Board's key takeaways for alts managers; and **Seedrs** takes a look at venture capital activities in the ClimateTech space, which is at an all time high.

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

#22

OUCH!

March was a difficult month for hedge funds, with a broad range of returns across strategies. It was a month when the bear market took hold and we moved from jingly janglies to abject panic as buyers quickly became sellers. Most equity markets did, however, recover losses, but they teetered on the brink as bank risk became a real concern. To see our Market Review click here.

In this environment, macro managers had a torrid month, with the **HFRI Macro (Total) Index** falling -3.2%. Trend followers were caught up in the bond maelstrom as Fed rhetoric was overtaken by market reality. By the end of the month, the **Trend Following** index was -4.6% and **Systematic Directional** -4.7%. This was felt across the board, with some alarming numbers from some of the biggest macro managers, although **Discretionary Directional** (-0.1%) was the better place to be. **Commodity** managers were -1.1%, with oil falling and markets pricing in long-term slowdown. The one underlying strategy in positive territory was **Discretionary Thematic**, +0.3%.

Equities were very different (S&P 500 +3.5%, Nasdaq +6.7%) with the **HFRI Equity Hedge (Total) Index** up +0.9% for the month and +3.4% for the year. The index would have looked different midway as markets sold off, although there were sizeable returns for managers short bank stocks. **Growth** and **Value** indices were the stand-outs, +1.5% and +1.2%. But it was not plain sailing for all, with **Energy/ Basic Materials** -1.8% and **Healthcare** -0.1%.

Event Driven remains a more complex place to make money this year, with the **HFRI Event-Driven (Total) Index** down -1.7%. No sub-strategies made it into the black, with the worst performing sub-strategy **Credit Arbitrage** -4.4%, followed by **Special Situations** -2.2% and **Activist** -2.1%.

Regionally, the **HFRI Western/ Pan Europe Index** was down -2.4%, while **MENA** and **Asia (ex-Japan)** indices were up +2.5% and +2.0%, respectively.

Upcoming Industry Events

23 April
GAIM Ops Cayman

26 April
Mergermarket Private Equity Forum (New York)

4-5 May
Impact Investment ESG Banking Conference 2023

Click here to see all the listings

$26bn

$ raised from IPOs in the first quarter

Source: Dealogic

$5bn

Hedge fund outflows in January and February

Source: eVestment

INSURANCE WOBBLES

Having seen US regional banks topple over the past month, regulators and analysts are taking a closer look at the liquidity and makeup of private equity-backed insurers' books. The concern is the size and complexity of their corporate loans, which is beyond the risk tolerance of most traditional insurers. **Apollo, Blackstone** and **KKR** are among the big players in this space.

In its quarterly investor letter, Apollo went out of its way to stress that its **Athene** reinsurance business is watertight, has a different funding model to banks and has seen significant inflows this year. Speaking to **Reuters**, a spokesperson added that the company had *'ample cash and liquidity and that its issuance of new annuity policies "meaningfully" exceeded the policies that matured and other withdrawals.'*

PORTFOLIO BANKRUPTCIES

Indicative of these times is a painful story in the private equity space, which is the rise of portfolio bankruptcies. According to **S&P Global Market Intelligence** data, of the 143 US companies to file for bankruptcy in the first 75 days of this year, 16 were private equity or VC-backed. These are still early days, but if the trend continues, the total number of PE backed company bankruptcies by year-end will be double that of 2021 and 2022.

SUCCESSFUL TECH RAISE

In a tricky fundraising environment, particularly in the tech space, we were delighted to see US private equity firm **Accel-KKR** announce that it has successfully raised $5.3 billion for a pair of funds. This is for Accel-KKR Capital Partners VII LP and Accel-KKR Emerging Buyout Partners II LP, which will invest in software and tech-enabled service companies.

A YEAR OF TWO HALVES

McKinsey's report into private capital describes 2022 as having been a year of *'two halves.'* What was described as a buoyant first half was followed by *'plummeting deal volumes, declining performance and falling valuations.'* The frenzied private equity deal-making momentum that we saw in 2021 continued into 2022, or at least the start of the year, which meant that 2022 actually turned out to be the *'second most active on record,'* masking an increasingly difficult environment.

As we have written previously, investors habitually turn to the big brand names when times are tough, and this trend continued, writes the report, with the larger funds seeing the *'outsized share of capital.'* There was however a greater reluctance among Asia and Europe based investors to invest, unlike North America that recorded positive fundraising growth. Entry multiples also dropped to 12.9 times from 12.2 times a year earlier.

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UPDATES (cont.)

ASIA PACIFIC STRUGGLES

Bain has released its latest **Asia Pacific Private Equity Report**, which shows a similar depressed picture to that of **McKinsey**. The total number of deals in the Asia Pacific region fell by 44% to $198 billion, and exit values dropped by 33% to $132 billion. These figures look all the worse as they followed a record 2021.

As global macro conditions took a turn for the worse, Asia-Pacific private equity funds increasingly pulled back. China's struggles with covid lock-downs, slowing growth and US tensions all contributed to the 53% fall in Greater China deal flow. In fact, combined China and India's total deal values fell by $35 billion.

This uncertain environment saw regional deal multiples down year-on-year, from 13.1 times to 12 times, and increased concern among GPs about high entry multiples.

TOSHIBA BID AGREED

Given the activist and private equity interest, we have been closely following the goings-on at **Toshiba** for a few years now. Last month, we wrote about the preferred bidder, **JIP Group**, submitting its bid, which has since been agreed. As a domestic deal, this consortium placates the government's concerns about Japanese technology falling into foreign hands. Hopefully, for Toshiba's sake, after many years of missteps, the company can move on.

QUALTRICS FALLS FOR $12.5BN

In what has already been a particularly barren year for M&A, **Silver Lake** and **Canada Pension Plan** have announced the acquisition of **Qualtrics** for $12.5 billion. This is the biggest buyout of the year and is the second time that the German specialist software firm has been bought in recent years, having been acquired by **SAP** for $8 billion in 2018 and listed in 2021.

Qualtrics shareholders, including SAP, are getting $18.15 per share in cash, a 73% premium on the 30-day volume weighted average price on 25 January.

NFL LOOKS AT PRIVATE EQUITY

There are signs that NFL franchises may soon open the door to private equity money as owners push for looser restrictions on ownership. Such a move will allow owners to get higher prices from the increased competition and the ability to dilute their stakes. If this happens, it will follow in the footsteps of the NBA, which today has various private equity-owned teams, such as the **Phoenix Suns**. Currently the NFL rules are designed to be prohibitive, with the principal investor requiring a 30% equity stake in the purchase, writes **Bloomberg**, and ownership groups restricted to 25 people, with listed companies, sovereign funds and private equity all currently barred from ownership. Whether change happens remains to be seen, but there certainly appears to be an appetite to have that discussion.

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BLACKSTONE ALL ABOUT 'BUILDING' THEIR BRAND

With investors focusing on the biggest brands during tough times, it is interesting to see **Blackstone** launch a branding push as it looks to grow its non-institutional investor base.

'Build with Blackstone' is the tagline and campaign. This is about 'building' trust with investors by 'building' resilient businesses, 'building' networks of portfolio companies and 'building' financial futures.

This is a reminder to all financial services firms that they need to be proactive - Blackstone's reputation and size organically draws in investors, so if they are going out on a limb to market themselves, everybody else should be doing likewise, and more.

Blackstone's campaign ties in well with a **Bain & Co** survey of 418 high net-worth individuals, which was recently released that found surprisingly low levels of brand awareness of alternative firms and private equity and of how the model works.

IPOS DISAPPOINT IN Q1

In line with the depressed environment, this year's IPOs are back to 2019 covid levels. According to **Dealogic** data, global IPOs have raised a paltry $26 billion in the first quarter. Various businesses have delayed or called off floats, with the **SVB** debacle causing the latest jitters in the market. The US was slightly more encouraging than Europe and Asia, with IPO volumes up on the fourth quarter of last year. Speaking to **Reuters**, *Keith Canton*, head of ECM Americas at **JPMorgan Chase & Co**, said he believes it will be the second half of the year before we see the IPO market reopening.

ODEY SMELLS OPPORTUNITY

Crispin Odey has a habit of pouncing when the rest of the world runs for the hills. With UBS shares bottoming, he invested 2% of **Odey Asset Management's** funds in the Swiss bank. Speaking to **Bloomberg**, the typically ebullient manager said that this should have been 5%, believing the sector and the shares to have sold off too aggressively. Odey had a stellar 2022, with the **European Inc.** fund up 152% that has, according to Bloomberg, recouped the losses suffered between 2015 and 2020.

HERO TO ZERO

After his stunning performance over the past few years, *Pierre Andurand* has recently found himself on the wrong side of recent commodity moves.

According to **Bloomberg**, Andurand's fund was up 154% in 2020, 87% in 2021 and 59% in 2022. At one point, 2022 had looked to be his record year, with staggering gains of 160% early on, only to reverse in the second half as the macro environment changed.

Unfortunately for Andurand, this negative trend has continued into 2023, with the fund down 19% in only the first few weeks of the year, and by mid-March was down 40%.

Andurand remains as bullish as ever, having ridden multiple peaks and troughs. Speaking at last month's **Financial Times Commodities Summit**, he talked about oil hitting $140 a barrel by the end of this year, with recent prices being driven more by banking problems than anything more fundamental. OPEC's surprise move on 3 April to cut output will undoubtedly help such forecasts.

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UPDATES (cont.)

BLACK MONDAY AS MACRO & CTA'S FEEL THE HEAT

Macro and CTA managers had a torrid March as bond markets reversed. The triumphs of last year that saw many of the largest funds report record returns, now feels a lifetime ago.

We have been here before and again it comes down to the old adage of not messing with the Fed. The signs were there even before March as managers struggled to gauge Fed direction.

The catalyst this time was the collapse of SVB, described by the **Bank of England** as the *"fastest [failure] since Barings,"* followed by the sale of **Credit Suisse** to **UBS**, resulting in a massive risk-off move.

This completely changed the Fed (and other central banks) narrative and market expectations. Just a few days earlier, *Powell* had been saying that he was gearing up for significantly higher interest rate hikes, with inflation still running too hot.

Monday 13 March will be remembered as Black Monday in the macro world and was described by **Bloomberg** as one of the worst days ever for the strategy. Many high conviction funds that day lost 5% and some 20% or more as Treasuries sharply reversed and banks sold off (on the other side of the trade, short sellers had one of their best days).

Brand names, such as **Haidar Capital Management** and **Maniyar Capital Advisors**, were among those to suffer big losses during the month. But this pain was felt across the board, at large as well as small funds, and in particular, the trend followers. **Société Générale's** CTA index was down around 6% for the month, which was its worst performance since November 2001.

In such months, the heroes are those who are down just a few percentage points, and there were even a few managers who closed the month in positive territory, but they were few and far between.

Last year's moves to diversify macro funds back into commodities did not help, with commodity markets generally down this year - with China slow to come back and recessionary concerns weighing on the space. This year we have already seen *Odey* announce the closure of his commodity fund - if this environment continues, others will surely follow.

SEC CONCERNS

Chris Rokos has derisked his portfolio after recent losses. This news comes from an investor letter that **Bloomberg** got hold of, which in turn was in response to a **Financial Times** article about **SEC** concerns over his bond positioning. Rokos says that cash remains at *"healthy levels"*, and there have been no requests for additional margin.

HOHN TURNS ON CELNEX

Shortly after taking a shot at **Airbus' Atos** deal, *Chris Hohn* has now turned his attention from France to Spain and is zero'ing in on **Cellnext**. **TCI** has a 3.1% stake in the Spanish telecoms infrastructure and services business and 5.9% in derivatives.

In Hohn's letter to the board, he questioned the selection process for the new CEO, which he believes to have been *"mishandled,"* accusing the company of being held back by *"poor corporate governance."*

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> I think that the whole enthusiasm and the race towards a central bank digital currency is going to slow. We need to really stop, reflect, think about what we've just learned and do we really want to be giving out digital tokens backed by the central bank, which would maybe exacerbate a bank run?

Huw van Steenis, Vice Chair & Partner, Oliver Wyman
Interviewed on 23 March 2023

www.moneymazepodcast.com

UPDATES (cont.)

ON THE BLOCK

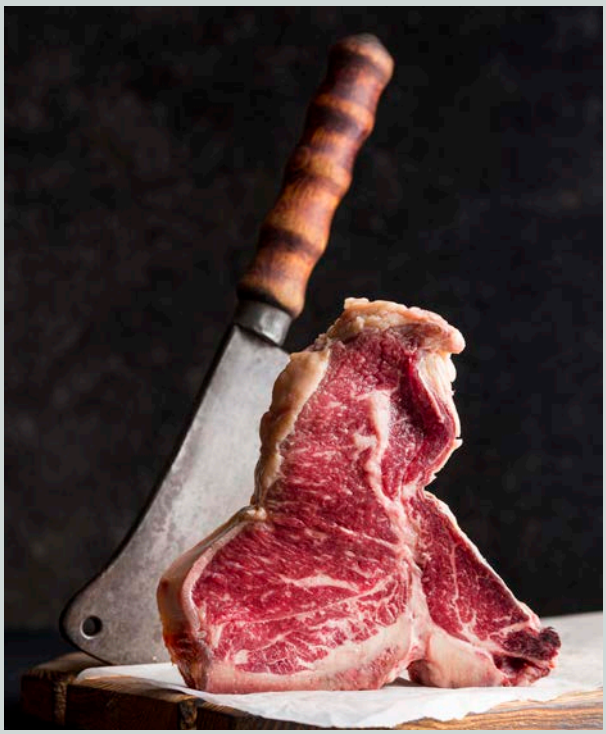
Hindenburg Research's latest victim is **Block**, the NYSE-listed firm run by *Jack Dorsey.*

Hindenburg has conducted two years of research into the $30 billion firm, previously called Square Inc., which it accuses of inflating user metrics and *'frictionless fraud'* to allow insiders to take out more than $1 billion.

This is a typically damning report, from a leader in this space, that claims the *'magic'* behind Block's business has *'not been disruptive innovation but rather the company's willingness to facilitate fraud against consumers and the government, avoid regulation, and dress up predatory loans and fees revolutionary technology...'*

The stock price immediately tumbled by as much as 22% before closing the day down 15%. Block's share price has since clawed back some ground following its responses to these allegations, but questions still hang over the firm.

NYC-based Hindenburg has been busy of late, having only just taken apart **Adani Group**.



FEBRUARY HEDGE OUTFLOWS

Against the long-term trend, February saw a large chunk of assets leave the hedge fund industry, according to **EVestment** data. And the likelihood is for more of the same in March.

Since 2009, February has been seeing the largest average inflows to funds. This year, however, $4.8 billion has gone out of the door, taking year-to-date outflow to $5 billion.

EVestment puts this down to a pause in new allocations as opposed to mass exits, but there has also been a wave of more negative sentiment after some of last year's performances, with macro, long/ short equity and credit funds all seeing outflows. Multi-strategy, however, continued to see positive net flows, although even these were *'muted.'*

Citco administered funds did however report a small net inflow of $0.4 billion in February, with Europe seeing $0.8 billion in and the Americas $0.4 billion out.

DR DOOMS

For a sector that was once media shy, plenty of managers are now opining about the state of markets and central bank action. In the wake of SVB and Credit Suisse, pessimism is running rife. There are plenty of doom-mongers, including *Ken Griffin*, who believes *"US capitalism is breaking down before our eyes,"* and *Bill Ackman*, who said he was *"extremely concerned"* about financial contagion from bank failures, fearing *"we are heading for a train wreck."*

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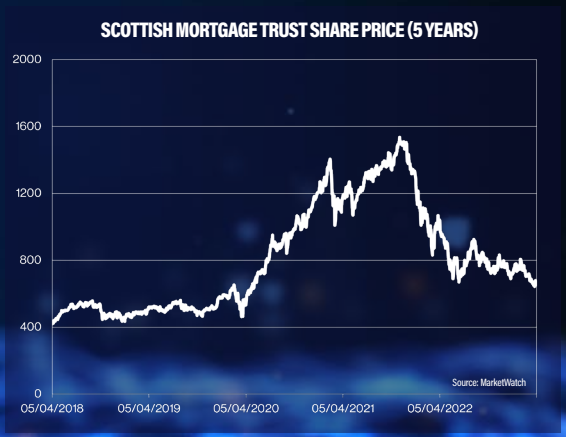
UPDATES (cont.)

SMT CUT SOME SLACK

Having already seen a peak to trough fall of over 50%, funds have been reining in their bets against **Scottish Mortgage Investment Trust**. These include *James Hanbury's* **Brooks Absolute** and **Developed Market** funds, writes the **Financial Times**.

The Trust has had a difficult time of late, with the share price halving and questions from a non-exec director, *Amar Bhide*, about the independence of *Fiona McBain*, the Trust's chair, and how it monitored private market investments.



BACK IN BLACK

Blackstone has offered £700 million, or a 42% premium, to buy British commercial property company **Industrial Reits**.

The move, which has the backing of Industrial Reit's board, comes as the property market come under increased pressure from rising rates and uncertain markets but, at the same time, offering cheaper deals.

Blackstone property interests have themselves been under the microscope over the last six months, with some of its funds facing heavy redemption requests, forcing it to put up gates.

CRYPTO INFLOWS

Always an interesting read on the state of the crypto market is **Coinshares' Digital Asset Fund Flows** report, with the latest showing investors are once more back in the digital game.

The 27 March edition reveals $160 million inflows to exchange-traded products. This is the largest number since July 2022 and follows six weeks of outflows, totalling $408 million.

With crypto one of the best-performing asset classes this year - bitcoin was up over 70% in the first quarter - investors are getting back on board with increasing questions hanging over more traditional finance.

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GUEST ARTICLES

ASSET OWNERS DELAY NEW INVESTMENT ACTIVITY AS MACROECONOMIC PICTURE EVOLVES

KATHRYN SAKLATVALA, BFINANCE

The past year has seen a notable slowdown in the volume of manager search activity conducted by institutional investors such as pension funds, insurers, foundations and university endowments, according to client data from independent global investment consultancy bfinance.

A turbulent macroeconomic environment has led to a climate of investor hesitancy as policymakers try to walk a tightrope between inflation and recession, armed only with the extremely blunt tool of monetary policy. The resulting fear and uncertainty appears to have placed many investors in 'wait and see' mode. As such, the number of new mandates across all asset classes—equities, fixed income, private markets and diversifying strategies—dropped by more than 10% in 2022 versus 2021, based on bfinance client data. While the first quarter has seen a modest pick-up, many investors are still postponing or reducing new investment activity.

Kathryn Saklatvala, bfinance

Interestingly, manager search activity in private markets remained remarkably resilient relative to liquid markets. As a result, 58% of new manager searches among the consultant's clients in 2022 targeted illiquid asset classes such as private equity, private debt, (unlisted) real estate and infrastructure—up from 49% in the previous year.

This may surprise readers who have tracked the overall slowdown in private market fundraising activity over the past 12 months, especially with an ongoing 'denominator effect' in play—wherein public market asset valuations decline more quickly than private market valuations, leading to an artificially (and possibly temporarily) outsized allocation. Yet there are several 'micro' trends influencing strong activity levels

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GUEST ARTICLES (cont.)

here. One is the surge in activity targeting 'impact', 'climate' and related thematic strategies within private markets: a significant proportion of client activity in private equity, real estate and infrastructure is currently focused on the rapidly maturing universe of strategies in this area. Separately, it's worth noting that a significant proportion of clients are newer entrants to some (if not all) illiquid asset classes and are still in the process of building up portfolios from a low base, meaning that the 'denominator effect' does not yet come into play.

Equity manager search activity, it must be said, bore the brunt of the slowdown among bfinance's clients. Only 15% of bfinance client manager searches in 2022 targeted this asset class, down from 24% of the previous year's higher total. In particular, there has been a dearth of regional mandates. Instead, where investors have been seeking new managers, the focus has chiefly been on global strategies, often with a specific style, size or other remit, rather than on specific geographies such as the US, Europe or China. It's also worth observing that mandates for emerging market equities represented 29% of all equity manager searches from bfinance clients, up from 22% the previous year: this sustained level was fuelled by replacement activity, with only 37% of investors indicating that they were 'satisfied' with the recent performance of their emerging market equity managers in bfinance's 2022 Asset Owner Survey, 'Traps and Transitions' (see 'How satisfied are you with the performance of active managers in the following asset classes?).

Fixed income manager search activity was relatively resilient by comparison, declining only marginally versus the previous year. Interestingly, 40% of fixed income manager searches were focused on emerging market debt, up from 29% the previous year; as was the case for emerging market equities, this was an asset class where investors have communicated weak satisfaction with the performance of their managers. Towards the end of the year we saw a resurgence in investor appetite for more conservative investment grade strategies, which continues in 2023.

New hedge fund manager search activity fell considerably, despite the outstanding performance generated in 2022 by more 'divergent' and market-independent strategies within this family. Global macro, CTAs and multi-strategy hedge funds delivered particularly strong results over a period when both equity and fixed income portfolios were generating losses. While investors did not necessarily view 2022 as an opportune window to make fresh commitments in this area, we do expect the experience of this period to shape future sentiment and anticipate ongoing demand for 'hero diversifiers' as investors consider the shape of portfolios going forwards.

The macroeconomic climate remains febrile in 2023, with ongoing instability and market shocks. It is hard to take decisive action in the face of such uncertainty. Yet investors must take advantage of the lessons from recent history—a very different macroeconomic environment—in order to re-evaluate exposures, strengthen portfolios and improve resilience to oncoming scenarios.

bfinance is an independent investment consultancy with clients in 44 countries.

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GUEST ARTICLES (cont.)

AIMA'S GLOBAL INVESTOR BOARD'S EIGHT TAKEAWAYS FOR ALTERNATIVE INVESTMENT FUND MANAGERS

CLAIRE VAN WYK-ALLAN, AIMA

AIMA's Global Investor Board (GIB) is a global advisory board created by AIMA, the global representative for the alternative investment industry, to further strengthen its engagement with the global investment community from across the alternative investment universe.

Launched in December 2021, AIMA's GIB has grown to nearly 20 senior leaders at institutional investors from across the world. Chaired by Eduard van Gelderen, CIO at PSP Investments, the GIB provides insights on trends impacting alternative asset allocation while advancing sound practice excellence for managers.

Here are eight top takeaways for alternative fund managers based on GIB conversations since it was founded:

1. **Partnering with investors**: Being just a pool of capital is not a definitive strategic relationship. Rather, a deeper and lasting partnership can be achieved by co-investment, bespoke offerings, increased knowledge sharing and value advisory services, with both research and technology.
2. **Sharing the expense**: Investors globally are increasingly sensitive not just to the amount of compensation being paid to fund managers but also to the costs they incur in running the business. Subsequently, there is greater acceptance for additional costs to be passed through to the investor, albeit capped to a certain level of the fund's NAV.
3. **Moving towards a new equilibrium**: There is an increasing sense that fund fees and terms between hedge fund managers and their investors are moving towards a new normal. Managers are responding to investors' needs by putting in place arrangements that are more closely aligned both to the requirements of the client and the underlying investment strategy. Fund hurdle rates are increasingly becoming a prerequisite, while distribution waterfalls also matter, many investors preferring the European distribution.
4. **ESG – no-one-size-fits-all approach**: Views on ESG differ depending on the region, and the

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GUEST ARTICLES (cont.)

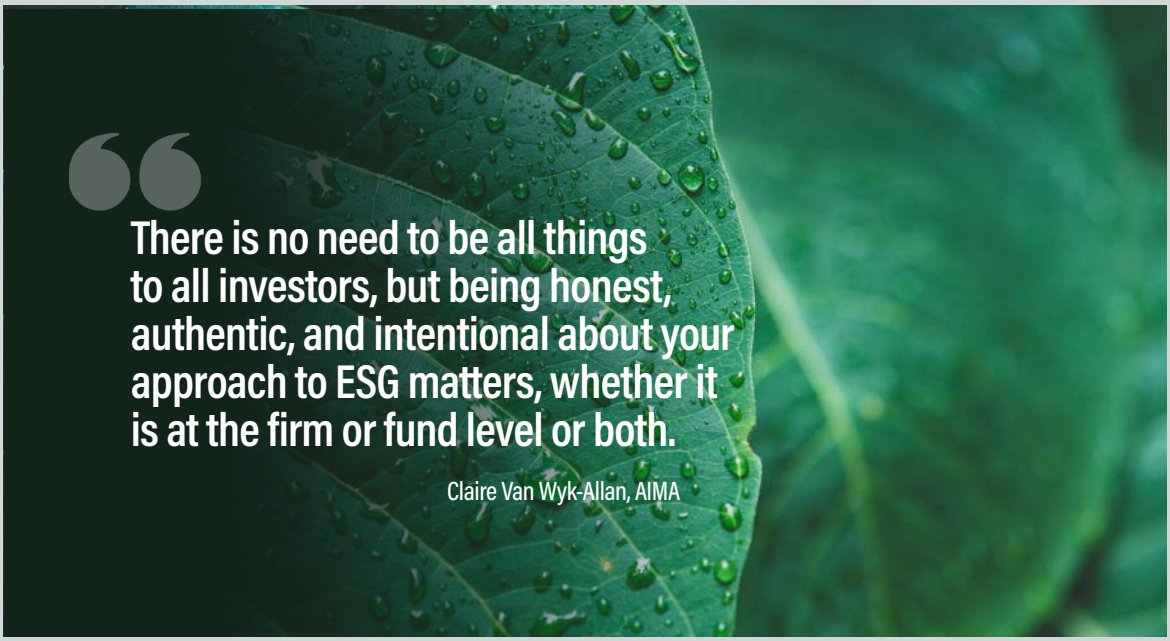
strategy of fund managers/type of investor and that will continue as various global markets diverge on their ESG frameworks. A more complex investment landscape is requiring fund managers to answer the thorny issue of squaring their fiduciary duty to their underlying investors with a desire to do good. A healthy dialogue on what ESG means and how it should influence decision making is paramount for getting the balance of interests between both parties right. There is no need to be all things to all investors, but being honest, authentic, and intentional about your approach to ESG matters, whether it is at the firm or fund level or both. Due diligence templates, carbon footprint documentation, UNPRI signatory commitments, climate risk exposure and other ESG disclosure and data reporting are important.

5. **The Denominator Effect is real**: Although investors are highly-interested in private market investments, the 'Denominator effect' (caused by the decline in public market securities inflating the proportion which investors hold in private assets) is real and will likely constrain investors from making further commitments to private markets for the next year or so, though they expect 2023 and 2024 vintage funds to offer great opportunities, given market conditions.
6. **LPs are refining their Total Portfolio Approach (TPA)**: More investors are using investment models that view the total portfolio holistically across a variety of different dimensions (i.e. active investment versus passive investment; public market allocation versus private market allocation; internal fund manager mandate versus external allocation; top-down versus bottom-up investment approach) to meet investment objectives, which may include improving the portfolio's risk-adjusted returns, increasing its diversification, mitigating drawdown risk, enhancing portfolio resilience and minimising liquidity risks.
7. **The valuation methodology is in the details**: While private equity valuations will lag, they likely aren't as over-valued as some headlines might suggest. However, managers should be much more transparent in detailing their specific approach to valuation.
8. **Viewing investors as partners:** Investor Relations professionals are encouraged to demonstrate strong ownership of the relationship through periods of difficulty, be detailed on what the fund is actually doing and upfront about how the fund may be similar or different to competitor funds.

If you wish to learn more about the work of the Global Investor Board or read their bi-monthly insights, please go to AIMA Global Investor Board or contact Claire Van Wyk-Allan for further details.

Claire Van Wyk-Allan, CAIA is Managing Director, Head of Canada for AIMA, and also co-leads AIMA's investor engagement work through the Global Investor Board and Investment Peer Group. She joined AIMA as Director, Head of Canada in 2018.

Claire Van Wyk-Allan, AIMA



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Nadia Humphreys
Co-Rapporteur Platform for Sustainable Finance
European Commission

Dan McCrum
Investigative reporter at the Financial Times
Author of Money Men

music

For more information visit aima.org/media/the-long-short.html

GUEST ARTICLES (cont.)

WHAT WE ARE SEEING IN THE WORLD OF ESG

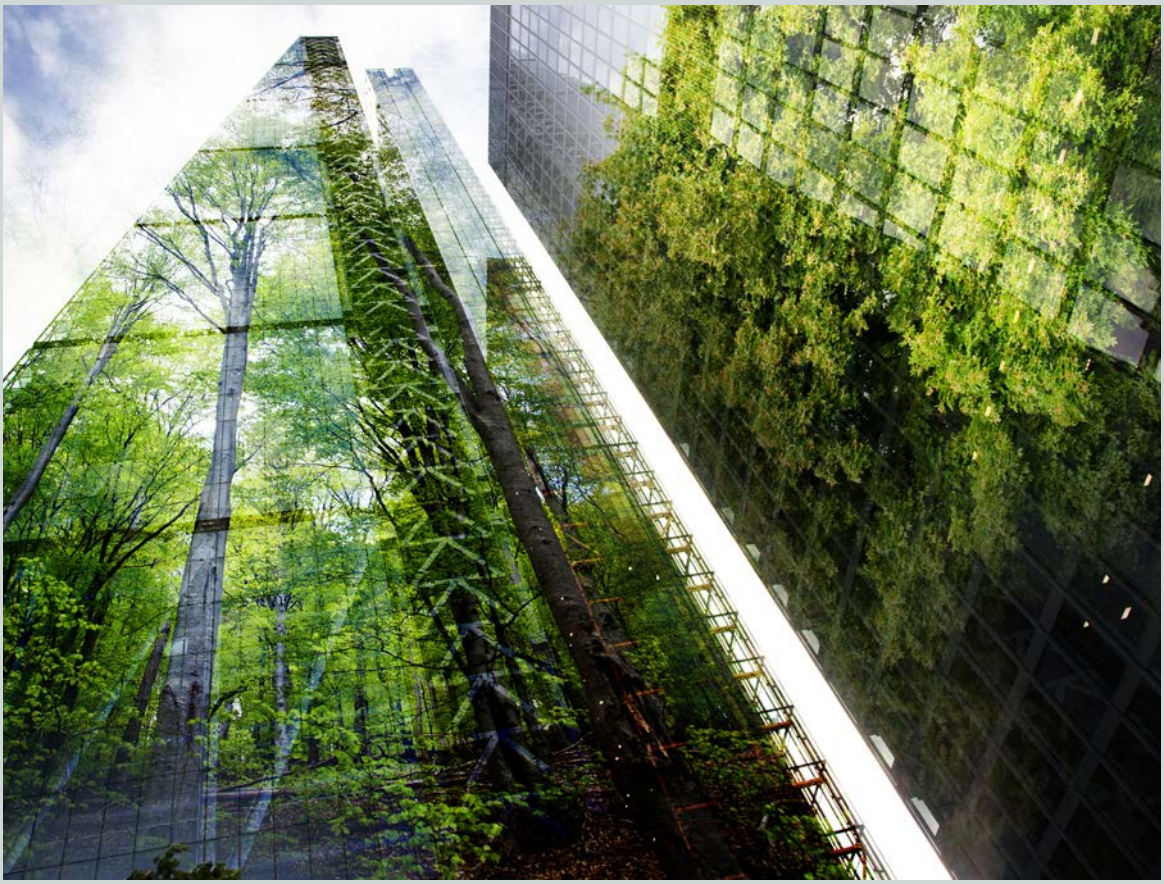
SEEDRS

2022 was a year of transition and consolidation for Environmental, Social and Governance (ESG) investing. On the one hand, regulatory changes and significant global economic headwinds saw European equity ESG funds underperform their benchmarks by 5%, worse than the 4.6% recorded by their traditional rivals.

However, most analysts agree that these metrics only dampen the case for ESG led investing based on short term ROI alone. The facts are that climate change is not going anywhere and the energy transition will drive sustainable fund returns over the long term. As Sarah Merrick, CEO of Ripple, who raised £2.1m on Seedrs last year, says: "There are very few sectors like ClimateTech where the fundamentals of massively accelerating demand are quite as clear and present."

That's why the world of venture capital is telling a different story when it comes to ESG. While global overall investment activity sunk by 57% in 2022, ClimateTech funding achieved an all time high, with 25% of all venture funding globally going into the sector according to a PwC report. That same report found that investors globally are set to embrace ESG investing on a massive scale and predict that it will soar 84% to $33.9 trillion by 2026 - equating to 21.5% of total assets under management or more than $1 for every $5 invested.

We're seeing evidence of this across the investment ecosystem. The world's largest sovereign wealth fund in Norway said it would vote against companies that don't set net zero carbon targets, overpay top executives, or lack diversity on their boards. Meanwhile, exchange traded funds (ETFs) aligned with ESG outcomes accounted for 65% of all net inflows into ETFs in 2022 - which suggests that investors are recognising the inevitability of long term structural change.



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GUEST ARTICLES (cont.)

And the markets only reflect what's happening in industry. For example, looking at technology adoption curves, a recent BloombergNEF report suggested that clean energy has a tipping point that 87 countries have now reached. This is a fact that car companies seem to have picked up on - almost every major manufacturer intends to stop making internal combustion engines within 20 years.

At Seedrs, these broader ESG investing trends are reflected in the investment behaviour we're seeing on the platform. In 2022, 47% more sustainability focused businesses (103 up from 70) received investment on the platform YoY, raising from 40% more investors. In particular, the Clean Energy sector thrived with investment growing 266% from £11m to £36m, with 50% more business raising from 50% more investors. And according to our summer investor survey, ClimateTech is the #1 sector of interest on Seedrs. That all explains why last year we saw alumni businesses in this sector like QED Naval, Solivus and Ripple return for another round on Seedrs to run highly successful campaigns, raising millions from our investors and their communities. At the same time, we also welcomed many innovative new businesses, like Gazelle Wind Power, who raised over €3.8m on Seedrs.

ABOUT SEEDRS

Seedrs is Europe's leading private investing platform. It enables individuals to invest in startups, growth companies, and, if eligible, top VC funds, as well as supports ambitious entrepreneurs in all sectors to raise capital from their communities, angels and institutional investors

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REGULATION

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STAKEHOLDER VIEWS SOUGHT ON SMCR

On 30 March 2023, the Bank of England and HM Treasury published separate 'call for evidence' documents on the Senior Managers and Certification Regime ("SMCR").

SMCR took effect in 2016 in response to perceived flaws in the previous 'Approved Persons' regime that came to light during the 2008 financial crisis and subsequent conduct scandals. In December 2022, as part of the Edinburgh Reforms, the UK government announced that there would be a review of SMCR.

The review is being conducted by the Financial Conduct Authority and the Prudential Regulation Authority, looking at the effectiveness, scope and proportionality of the regulatory regime. This forms the basis of the Bank of England's Discussion Paper DP1/23. Separately, HM Treasury published a Call for Evidence to look at the legislative aspects of the regime.

The Bank of England's Discussion Paper requests feedback from stakeholders on a number of aspects of SMCR, focusing on practical considerations.

HM Treasury's Call for Evidence dovetails with the Bank of England's Discussion Paper insofar as both contemplate the overall effectiveness of SMCR, benchmarked against its core objectives. In addition, it focuses on the impact of SMCR on the UK's international competitiveness, reflecting that not all jurisdictions have a similar framework. Pertinently, the Call for Evidence asks whether any specific areas of SMCR are perceived as a deterrent to firms or individuals locating in the UK.

Responses are requested by 1 June 2023.

FCA PUBLISHES APPLICATIONS METRICS: ROOM FOR IMPROVEMENT

The Financial Conduct Authority ("FCA") has published its latest operating service metrics for authorisations timelines.

The metrics cover a variety of applications and notifications including approved persons applications, appointed representative notifications, new firm authorisations, variations of permission and change in control.

The FCA recognises that there is room for improvement, including speeding up the time taken to process applications and reducing the number of applications where the FCA fails to meet its statutory deadlines.

The FCA is addressing this by recruiting additional staff and enhancing the 'triage' process, thus reducing the time it takes to allocate a case to a case officer.

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REGULATION (cont.)

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INVESTMENT RESEARCH REVIEW

On 9 March 2023, HM Treasury announced the appointment of a new chair to lead the Investment Research Review which was formally launched on 13 March 2023.

Rachel Kent, a senior partner at global law firm Hogan Lovells, has been tasked to lead the review. An initial report is expected to be provided within three months of her appointment, by mid-June 2023. The terms of reference for the review have been published by HM Treasury and can be located here.

As an overview, the Investment Research Review will consider current provision of investment research in the UK and evaluate how this area may contribute towards improving London's attractiveness as a destination to list.

CURRENT CONCERNS

By way of background, the government noted that concerns have been raised about the quality and quantity of investment research produced in the UK compared to other jurisdictions, particularly for sectors like tech and life sciences.

As good investment research is a valuable resource which provide investors with information to understand a company's business model, performance, and risks, and therefore assess its value as an investment, underperformance in the research sector leads to concerns that it may be hard to value companies or valuations are undermined, thus making it harder for companies to access private capital, and the UK markets less attractive to businesses seeking to raise capital.

Past reviews by the government indicate two problems in particular.

Firstly, a perception that the U.S. has a cluster of expert analysts – in particular, specialising in high growth sectors such as tech and life sciences – which contributes to a valuation gap between the U.S. and the UK.

Secondly, market participants have pointed to the EU-derived MiFID II "unbundling" rules in 2018 (when changes were made to separate payment for investment research from payment for execution services) as a potential source of decline of investment research in the UK.

This review is part of the so-called 'Edinburgh reforms' for the UK financial services sector.

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SEC OBSERVATIONS FROM EXAMINATIONS OF NEWLY-REGISTERED ADVISERS

On 27 March 2023, the U.S. SEC's Division of Examinations (the "Division") published a Risk Alert setting out the typical focus areas for examinations of newly-registered investment advisers. It also shares the Division's observations regarding compliance policies and procedures, disclosures, and marketing practices.

In recent times, the Division has prioritized examining newly-registered advisers. This enables Division staff to provide advisers with information about its examination program, conduct preliminary risk assessments, facilitate discussions on the advisers' operations and risk characteristics, and promote compliance with applicable statutes and regulations.

The examinations typically involve document requests and interviews with advisory personnel. The requests address the adviser's business and investment activities, organizational affiliations, compliance policies and procedures, and disclosures to clients. Typical requests include:

- General information to provide the Division's staff with an understanding of the adviser's business and operations;
- Demographic and other specific data regarding each advisory client account;
- Information regarding the adviser's compliance program, risk management practices and framework, and internal controls;
- Information to facilitate the staff testing for regulatory compliance in certain areas, including portfolio management and trading activities; and
- Communication used by the adviser to inform or solicit new and existing clients.

Deficiencies observed by the Division from recent examinations relate to compliance policies and procedures, disclosure documents and filings and marketing

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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.

RQC GROUP

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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