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# Hedge Fund ALERT

JANUARY 10, 2018



## THE GRAPEVINE

Equity-focused portfolio manager **Ron Tarsy** has left **Tudor Investment,** destination unknown. Tarsy had joined the Greenwich, Conn., firm from **Millennium Management,** having previously spent time at the now-defunct **Carlyle Blue Wave** and at **Goldman Sachs.** Following disappointing returns, Tudor founder **Paul Tudor Jones** has been restructuring his $7 billion business.

Startup debt-fund manager **Kennedy Lewis Investment** has hired two employees. **Jake Nechamkin** joined the New York firm this month as a trader. He had been employed at **Snow Park Capital** since 2015, and before that was at **Avondale Partners.** Also signing on with Kennedy Lewis is investor-relations specialist **Carly Basner,** who starts at the end of this month. She had been working at **Emerging Sovereign Group** since 2015, and before that was

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## Fund Writing Loans Against Crypto Portfolios

A Denver startup has launched a first-of-its kind hedge fund that seeks returns from writing loans secured by cryptocurrencies.

**SALT Lending** began originations through its Crypto Credit Opportunity Fund on Dec. 27. It also operates a marketplace-lending platform to match individuals and businesses that wish to borrow dollars against their holdings of digital currencies with institutional lenders, including SALT's hedge fund.

In marketing the fund, SALT is highlighting the opportunity for investors to gain exposure to a rapidly emerging asset class without the operational headaches of owning digital currencies directly. The firm also emphasizes the potential to reap high-yield returns on secured debt at a time when interest rates continue to hover near historic lows.

Still, SALT faces the difficult task of winning over investors who might be put off by

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## Market Trends Seen Culling Long/Short Herd

The field of long/short equity funds — the oldest and still-largest category of hedge funds — is poised to contract by as much as a third due to ongoing structural changes in the stock market.

At least that's the consensus among industry professionals who participated in **Hedge Fund Alert's** annual outlook survey. A majority of the 27 respondents predicted the number of long/short equity funds would decrease anywhere from 5-30% in the next five years.

Among the most pessimistic about the fate of those vehicles is prime-brokerage professional **Farid "Freddy" Zainal,** senior vice president at **ETC Global** of Los Angeles, who expects the field to shrink by nearly a third.

"Long/short equity is a dead game," he said. "Quants are finding an edge everywhere, and investors already have a ton of [exchange-traded funds] and 'smart beta' ETFs to invest in. I predict with the returns the [cryptocurrency] funds made this

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## Ex-Two Sigma Pro Markets Lockup Vehicle

**Orthogon Partners,** founded by former **Two Sigma Investments** executive **Rishi Ganti,** is soliciting capital for a private equity-like vehicle that would invest in "esoteric" assets globally.

The New York firm aims to raise $200 million of equity for Orthogon Partners 2, whose investment targets could range from litigation financing in Brazil to small-business loans in Mexico to charter-school financing in the U.S. From 2008-2016, when he invested proprietary capital on behalf of Two Sigma's principals, Ganti generated a 13.8% annualized return, with no down years. To date, he is the only investment manager to market a Two Sigma track record outside of the firm, according to Orthogon's marketing documents.

Ganti formed Orthogon in 2016 after leaving Two Sigma. His initial offering, Orthogon Partners 1, held a final equity close in November 2017 with $137 million.

Ganti aims to hold an initial equity close for Orthogon Partners 2 before the end

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## Minnesota Startup Mines Local Talent

A Minneapolis startup has assembled a team with experience at prominent Minnesota hedge fund managers including **Pine River Capital, Varde Partners** and **Whitebox Advisors.**

**Hunter Street Partners** is led by chief executive and chief investment officer **Neal Johnson,** whose resume includes eight years as an investment professional at Varde. The firm's president, **Peter Hommeyer,** most recently worked at Whitebox, where he oversaw business development. **Jason Hegrenes,** who holds the dual titles of chief financial officer and chief operating officer, previously spent 13 years in operations at Pine River.

Hunter Street is in the early stages of raising capital for a fund that would take an opportunistic approach to investing in debt and equity, with a focus on real estate, specialty finance and the securities of small and mid-size companies. In many cases, the fund would invest via joint ventures with operating partners such as loan servicers, restructuring specialists and real estate developers.

"I expect Neal to have good traction, as he was well-regarded at Varde," one institutional investor said.

Before starting Hunter Street last year, Johnson spent four years at **Isles Ranch Partners,** a Minneapolis firm that mainly targets investments in residential real estate construction. As an investment professional at Varde before that, Johnson focused on distressed-debt and special-situation plays.

Johnson's investment team includes managing director **Michael Pohl,** who previously worked with Johnson both at Isles Ranch and Varde; managing director **Sean Rohland,** who joined from Isles Ranch and earlier worked at **CarVal Investors;** partner **Andrew Platt,** whose resume includes **Merced Capital, Norwest Equity Partners** and **GE Asset Management;** and analyst **Alex Ganenco,** formerly of Pine River.

The abundance of hedge fund investment talent in Minnesota stems in part from commodity giant **Cargill** and its investment arms, including CarVal. The founders and top executives at many of the biggest hedge fund firms in the state, including Merced (previously called EBF & Associates), Pine River and Varde, began their careers at Cargill, which is based in Wayzata, Minn. ❖

## Buyer Emerges for Citco Stake

Private equity firms **General Atlantic** and **Stone Point Capital** have reached a deal to sell a 30% stake in fund administrator **Citco.**

The identity of the buyer is unknown. But a source said the deal values Citco at $2.7 billion, suggesting General Atlantic and Stone Point would fetch about $810 million for their joint interest. They purchased the stake in 2011 for $580 million.

The private equity firms, both based in Greenwich, Conn., hired **Goldman Sachs** to shop the position. The deadline to submit bids was last month. The deal, which has yet to close, presumably will be reviewed by regulators in the Netherlands and Cayman Islands, where Citco has major operations, and possibly the U.S.

The buyer's identity will be of keen interest to Citco's hedge fund clients, which share position and performance data with the company and could look askance depending on who ends up with the stake.

Assuming a $2.7 billion valuation for Citco, the gain on General Atlantic and Stone Point's investment amounts to about 40% over six years. During that stretch, Citco has grown from about $650 billion of assets under administration to $1 trillion as of May 2017. Hedge funds and funds of funds accounted for about $775 billion of the total assets, with the rest held by private equity and real estate funds.

In 2011, when the private equity firms acquired their stake, Citco ranked as the most active hedge fund administrator. It has since slipped to third place, behind **State Street** and **SS&C GlobeOp,** in an annual ranking by **Hedge Fund Alert.**

Citco was founded in in 1948 by the **Smeets** family of the Netherlands, which still controls the business. The stake sale by General Atlantic and Stone Point almost certainly would require the family's approval. ❖

## Ex-SAC Staffer Preps Quant Fund

A quantitative-investment specialist who spent nearly 10 years at **Steve Cohen's** hedge fund firm and family office is getting ready to launch his own fund.

**Minhua Zhang** has been working since October at his New York-based **Weld Capital** following his departure from **Cubist Systematic Strategies,** a quantitative-investment unit of Cohen's family office, **Point72 Asset Management.**

While details are sketchy, it appears Weld's initial offering will be some sort of quantitative fund, with a launch expected around April. A fund-of-funds manager who specializes in quant funds said Zhang is on track to raise a substantial sum of day-one capital. Another source pegged the amount at $100 million.

Zhang was a portfolio manager at Cubist from January 2015 to March 2017. Prior to that, he worked at Cohen's fund-management firm, **SAC Capital,** as an analyst and a portfolio manager from May 2008 to December 2014. Cohen converted SAC to a family office under a plea deal with federal prosecutors to settle insider-trading charges. The agreement permitted Cohen to begin managing outside capital again starting this year — something he's expected to do in the coming weeks.

Zhang, who earlier worked at **D.E. Shaw,** so far has hired two people at Weld. **Thomas Umlawski** joined in October as a quantitative analyst from New York equity-fund shop **R&F Capital. Shijin Kong,** who holds the title of chief technology officer, joined in October from **Facebook,** where he was a software engineer. Zhang also wants to hire a quantitative analyst with 2-5 years of experience, preferably on the buy side. ❖

# Holocene Launch Defies Weak Demand for Long/Short Equity

Despite waning investor appetite for plain-vanilla equity strategies, the biggest launch of 2017 was a fundamental long/short equity fund.

**Brandon Haley,** once a top equity manager at **Citadel,** raised $1.5 billion through his New York startup, **Holocene Advisors.** The firm's Holocene Fund began trading in April.

Strong demand for Holocene is unsurprising considering that Haley previously spent about 10 years overseeing Citadel's core equity-trading business. Like so many promising equity managers before him, Haley began his career as an analyst at **Goldman Sachs.**

Holocene's hot launch contrasts with the fund-raising challenges faced by many established equity managers, particularly smaller shops. Equity hedge funds tracked by **HFR** experienced net outflows of more than $20 billion in 2016, and investors continued to pull money out during the first three quarters of 2017.

It's no wonder the next four biggest launches last year were non-equity funds. **Diameter Capital,** a corporate-bond investor led by a one-time **Anchorage Capital** trader and former **Centerbridge Partners** executive, started out with $1 billion. Then came three global-macro funds that each launched with more than $600 million.

Investors already are anticipating two major fund launches in 2018: **Steve Cohen's Point72 Asset Management** and **ExodusPoint Capital,** led by former **Millennium Management** executive **Michael Gelband.** Both are expected to begin trading with well over $1 billion. Also on tap: a potentially big launch by **Daniel Sundheim,** former chief investment officer at **Viking Global.** ❖

## Biggest Launches of 2017

| Management company | Fund | Key executives | Launch | Equity at Launch ($Bil.) |
|---|---|---|---|---|
| Holocene Advisors, New York | Holocene Fund | Brandon Haley | April | $1.5 |
| Diameter Capital, New York | Diameter Master Fund | Scott Goodwin, Jonathan Lewinsohn | September | 1.0 |
| Amia Capital, London | Amia Capital Macro Fund | Antoine Estier, Alex Garrard, Marat Djafarov, Igor Hordiyevych | August | 0.8 |
| Brevan Howard, Isle of Jersey | AH Fund | Alan Howard | March | 0.7 |
| Light Sky Macro, New York | Light Sky Macro Global | Ben Melkman | March | 0.6 |

## Suit Casts Doubt on SkyBridge Deal

A lawsuit filed last month against China-based **HNA Group** suggests there's little chance HNA can clear the regulatory hurdles necessary to complete its acquisition of **Anthony Scaramucci's SkyBridge Capital.**

The suit was filed in New York State court by **Ness Technologies,** a Teaneck, N.J., software developer that agreed in March 2017 to be acquired by HNA for $325 million. The deal unraveled in the fourth quarter after the **U.S. Treasury Department's** Committee on Foreign Investment in the U.S., or CFIUS, indicated it would need a lot more time to consider the national-security implications of the acquisition.

Ness accuses HNA of misleading the committee about its ownership structure, which was CFIUS' core concern. The Chinese conglomerate "so poisoned and prejudiced" the process that it "effectively prevented CFIUS from ever approving" HNA's application to buy Ness, the suit alleges. A spokesperson for HNA has called the complaint "baseless."

**The Wall Street Journal** cited Ness' lawsuit in a Dec. 21 article about federal lawmakers calling on CFIUS to increase its scrutiny of HNA's investments in the U.S. What has gone unreported is that CFIUS had been considering HNA's proposal to acquire SkyBridge in tandem with the Ness case, according to the lawsuit. And that the same issues that scuttled the Ness deal were preventing the agency from moving ahead with the SkyBridge application. CFIUS asked HNA and Ness to file and refile multiple applications, and still there were dozens of unresolved questions, according to the lawsuit.

Ness' complaint further suggests the nature of SkyBridge's business is such that it would likely raise more national-security concerns than the Ness deal. Ness executives told Treasury Department officials in August, for example, that they don't maintain "personal identifier information" about their clients. SkyBridge presumably does, though the firm declined to comment.

It's unclear how far along CFIUS is in its review of the SkyBridge deal, or whether HNA still has the financial means to close on the transaction. The Chinese company has deployed more than $40 billion to acquire businesses worldwide in the past year or so, but is now weighed down by more than $100 billion of debt. It has backed away from several pending acquisitions in recent months, and is seeking to sell $6 billion of real estate holdings, the Journal reported in November.

HNA, with partner **RON Transatlantic,** signed an agreement to buy SkyBridge in January 2017 — more than two months before it announced a deal with Ness. The SkyBridge transaction was designed in part to allow Scaramucci to take a position with the **Trump Administration** as an economic advisor. But that job never panned out. He subsequently was appointed press secretary, but was fired 10 days later after criticizing key administration officials in an expletive-laden interview with **The New Yorker.**

SkyBridge, currently led by chief executive **Ray Nolte,** has repeatedly pushed back the closing date for the HNA deal, and Nolte has publicly expressed frustration with the delays. Meanwhile, the firm has shrunk to $10.7 billion of assets under management or advisory as of Nov. 30, from a peak of about $13.6 billion. ❖

## BNP Takes New Approach to Cap Intro

**BNP Paribas'** prime-brokerage division has dismantled its capital-introduction unit, opting instead to outsource capital-raising services for its hedge fund clients.

The Paris bank laid off three of the five members of its New York cap-intro group at yearend. Another transferred to a prime-brokerage sales job. **Tom Mahala,** who led the team, departed late last year for a position at **Layton Road Group,** a New York firm that now has a contract to provide cap-intro services for BNP's prime-brokerage clients.

At Layton Road, Mahala is working with another former BNP cap-intro executive, **Jim Campbell.** The firm employs six professionals overall, with offices in Dallas and Gladstone, N.J., in addition to New York.

BNP is paying Layton Road an undisclosed fee to facilitate meetings between hedge fund managers and prospective investors — a less-costly arrangement than maintaining an in-house cap-intro team. BNP is Layton Road's first client.

Mahala hopes to persuade other prime-brokerage businesses to outsource their cap-intro services to Layton Road. In addition, the firm aims to serve smaller hedge fund managers and commodity-trading advisors who don't have access to cap-intro offerings from the big banks.

One prime-brokerage executive said he wouldn't be surprised to see other banks outsource their cap-intro functions — not necessarily the biggest prime brokers, such as **Goldman Sachs** and **Morgan Stanley,** but second-tier banks and brokerages looking to boost profitability.

"I'll bet you a dollar there will be at least two if not three others that do this," he said.

BNP ranks 12th on **Hedge Fund Alert's** list of the leading prime brokers, which encompasses banks and brokerages catering to fund managers that report to the **SEC.**

Mahala ran BNP's cap-intro team for about six years. He's best known for his tenure in **Bear Stearns'** once-formidable prime-brokerage department, where he managed relationships with some of the bank's biggest hedge fund clients.

Also on board at Layton Road are **David Fiegenbaum,** who most recently worked at **Lily Pond Capital,** which provides working capital and marketing help to emerging alternative-investment managers; **John Service**, previously head of investments at family office **IGW Trust; Dan Sheridan,** who last worked at recruiting firm **Frank Recruiting Group;** and **Lindsey Douglas,** formerly of third-party marketing firm **Profor Advisors.** ❖

## Crypto ... From Page 1

lending against one of history's most volatile assets.

SALT's borrowers pay interest rates of 10-20%, depending on the amount of leverage involved. The fund writes loans representing no more than 60% of a borrower's cryptocurrency collateral, but says it will soon offer loans with loan-to-value ratios as high as 80%. SALT credits with 60% LTVs carry an annual interest rate of up to 20%, while lower rates apply to less-leveraged loans.

For now, SALT is writing loans with terms of up to three years secured by bitcoin and ether, but it soon plans to begin accepting other types of digital currencies as collateral. At least several other businesses have crypto-lending platforms in the market, including **CoinLoan** of Tallinn, Estonia; **EthLend** of Helsinki; and **NeBeus** of London.

SALT is offering two versions of its fund: one geared toward wealthy individuals and one for institutional investors. Both are run by a newly formed unit called **SALT Blockchain Asset Management,** which also is offering parallel separate accounts to investors who want to tailor their exposure to certain types of loans or crypto assets.

The chief investment officer of SALT Blockchain Asset Management is **Gregg Bell,** who also heads operations for SALT Lending. Before joining the firm last year, he invested in structured products at **ArrowMark Partners,** then known as Arrowpoint Partners. He joined that firm in 2015 after five years focused on structured products at **RBS.**

In the fund's first nine days of investing, it booked $7 million of loans. The firm anticipates strong demand from investors in digital currencies who have seen the values of their portfolios skyrocket in recent months, but are loathe to sell their holdings for fear of missing out on additional gains. In the next few weeks alone, SALT expects to originate about $50 million of loans.

The lender is targeting, among others, investors who wish to put off sales of their appreciated holdings to avoid paying taxes on their short-term gains.

SALT's four cofounders are chief executive **Shawn Owen,** business development chief **Blake Cohen,** creative chief **Caleb Slade** and strategy head **Ben Yablon.** The firm employs about 45 staffers.

Beyond its fund, which has attracted an unknown amount of capital, SALT has built a roughly $200 million balance sheet. Most of that sum was generated through the massive appreciation of the firm's cryptocurrency assets, beginning when SALT formed last year. The firm raised $45 million in mid-2017 via token sales, and attracted $3.5 million of startup capital, both debt and equity.

To take out a loan, borrowers first are required to purchase a nominal amount of SALT's tokens. So far, the lender has sold "memberships" to about 50,000 potential borrowers.

In October, the firm formed a partnership with **SBM Group,** a financial-services firm in Mauritius that caters to offshore fund managers and investors in India and Africa.

SALT, an acronym for Secure Automated Lending Technology, started out last year writing loans via a marketplace-lending platform that matches borrowers with investors — similar to the model pioneered by **Lending Club.** Because Lending Club and its peers offer unsecured loans, their investors primarily are concerned with the creditworthiness of the borrowers. That's not the case with SALT's investors.

Because it writes only secured loans, the lender doesn't bother with credit checks. Instead, it employs a collateral-management system that continually monitors the value of the underlying assets and triggers margin calls when the values of collateral currencies fall. Borrowers receiving margin calls have the option to put up additional collateral or pay down their balances. If they fail to respond to a margin call, SALT would liquidate an amount of collateral sufficient to bring the loan back into compliance with its agreed-upon LTV. ❖

## Market ... From Page 1

year, we will see many investors requesting a crypto product or offering."

Stock-picking portfolio managers have struggled to beat the market in recent years for a number of reasons, including central-bank policies that have driven up asset prices across the board; increasing costs for research; and a shrinking universe of publicly traded companies, resulting in "crowded" trades. But **Dan Arlandson,** an investment manager at the **University of Minnesota's** endowment, said managers also have hurt themselves with high fees and the "commodity-like nature of their offerings."

Arlandson predicts the number of long/short equity funds will drop by 15% in the next five years. As of Nov. 30, those funds were managing a total of $787 billion, accounting for about a quarter of the assets in hedge funds globally, according to **eVestment.** The next-largest categories were multi-strategy and event-driven funds, each with $532 billion.

"Long/short will shrink based on a poor value proposition," said a veteran fund-of-funds executive who asked not to be identified by name.

The trend will likely benefit other types of alternative-investment managers, particularly those pursuing less-liquid strategies. "Under the assumption that the U.S. capital markets will experience a correction in the next several months, the expectation would be that the universe of long/short equity funds will compress, perhaps by as much as 15-20%, as investors move to private equity, real estate, credit funds, global macro and other strategies," said **Stephen Jacobs,** a partner at hedge fund-focused law firm **Herrick Feinstein.**

**Jim McKee,** director of hedge fund research at pension consultant **Callan,** expects demand for long/short equity funds will actually increase, with total assets under management in the strategy growing by perhaps 5% in the next year. But he anticipates those assets will be increasingly concentrated among the biggest managers.

"Given the improving intra-market dynamics, coupled with receding central bank-provided liquidity, I predict the value of hedging and stock selection will be more appreciated," he said. "However, the number of smaller long/short equity funds will continue to shrink by 20%, as critical mass to manage higher costs — for example, compliance — rises while fee pressure continues."

Responding to a related question about the recent turnaround in hedge fund performance, some said they expect long/short equity managers to benefit from an increase in the dispersion, or range, of equity returns.

"Stock prices are moving more based on fundamentals than we have seen in the past couple of years," said an executive at a healthcare-stock fund who asked

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## Sampling of Growth Forecasts

Projected increase in global hedge fund assets

| | 2018 Increase (%) |
|---|---|
| Penn Miller-Jones, Adare Advisors | 20 |
| Farid Zainal, ETC Global | 15 |
| Jim Lawler, VantagePoint Alternatives | 12 |
| Gary Berger, KPMG | 10 |
| Peter Bilfield, Day Pitney | 10 |
| Stephen Jacobs, Herrick Feinstein | 9 |
| Jane Buchan, PAAMCO | 8 |
| Benjamin Deschaine, Balter Capital | 7 |
| Sol Waksman, BarclayHedge | 6 |
| Ken Akoundi, Investor DNA | 5 |
| Donald Motschwiller, First New York Securities | 5 |
| Joe Peta, Kingsford Capital | 5 |
| Joe Taussig, Taussig Capital | 0 |
| Dan Arlandson, UMF Investment Advisors | -2 |
| Neal Berger, Eagle's View Capital | -10 |

## Year-Ago Consensus Too Cautious

After being overly bullish about industry growth in 2015 and 2016, respondents to **Hedge Fund Alert's** survey a year ago proved overly bearish.

The 78 industry professionals who participated in last year's survey predicted, on average, that global hedge fund assets would increase by a mere 0.4% during 2017 — understandable given investor dissatisfaction with fund performance at the time. Thanks in part to more respectable returns over the past 12 months, however, industry assets in fact grew by about 8% to $3.266 trillion, according to the latest estimate from **eVestment.**

The pessimism last year was deep enough that a number of survey respondents predicted a double-digit contraction in hedge fund assets. The most accurate forecasts came from **John Budzyna** of **KPMG, Spiros Maliagros** of **TIG Advisors** and **Nicholas Tsafos** of **EisnerAmper** — each of whom forecast 7% growth for 2017.

Tsafos' forecast reflected his confidence that "very smart people in the industry doing interesting or creative things" would lead to a performance rebound. "I look at my hedge fund clients and see what they are investing in and the strategies they are discussing with us. They are basically trying to stay away from what everyone is buying in the market," Tsafos said.

Despite what he sees as a "trickier" market in 2018, Tsafos thinks the industry will continue to grow at a rate of 8-10% in the next 12 months, "barring the president doing anything crazy."

## Gauging the Lure of Crypto Returns

Will 2018 be the year major hedge funds board the cryptcocurrency gravy train?

**Hedge Fund Alert's** annual outlook survey found little consensus on whether bitcoin and other digital currencies eventually will draw investments from large, diversified hedge fund firms — as opposed to startups focused entirely on digital assets. The question: What percentage of the 200 largest hedge fund managers will be investing in cryptocurrencies at yearend 2018?

Despite the past year's otherworldly value gains in the likes of bitcoin, ether and ripple, about half of the respondents expected 10% or fewer of the biggest hedge funds to jump into the crypto game. The rest predicted at least 10% of the top-200 funds would take the plunge, with **Sol Waksman,** founder of hedge fund data outfit **BarclayHedge,** forecasting 40%, at the high end.

Among the more skeptical respondents was **Dan Arlandson,** an investment manager at the **University of Minnesota's** endowment. "Cryptocurrencies will be regulated out of existence by yearend 2018," he said.

Hedge fund attorney **Stephen Jacobs** said he sees fewer than 5% of the largest managers deploying capital to digital currencies this year. "Cryptocurrencies are still a very risky, volatile and unproven market," said Jacobs, a partner at law firm **Herrick Feinstein.**

A veteran hedge fund marketer currently employed at a quantitative fund shop said he expects about 10% of the top 200 hedge fund managers will invest in cryptocurrencies over the next 12 months. And that should raise a red flag among investors. "Style-drift problem" he said. ❖

## Market ... From Page 6

not to be named. "It helps make fundamental stock-picking more predictable."

Added **Benjamin Deschaine,** portfolio manager at Boston-based **Balter Capital:** "Stock dispersion is finally starting to rise after nearly five years at all-time lows."

At the end of November, the HFRI Equity Hedge (Total) Index — a broad measure of long/short equity performance — was up 12% year-to-date. That's far better than the index's full-year increase of 5.5% increase in 2016, though still well short of the market's advance, with the S&P 500 Index finishing 2017 up 21.8%.

"A rising tide raises all ships," said Jacobs, of Herrick Feinstein. "The strong performance in the industry is based primarily on the strength of the U.S. equity markets."

In any case, the loftier returns are buoying the outlook of industry professionals. Asked to predict how much global hedge fund assets under management will increase (or decrease) in 2018, survey respondents on average forecast 7% growth (see table on this page). That's far more optimistic than they were a year ago, when the average growth forecast for 2017 was a measly 0.4%. (In fact, global hedge fund assets grew by about 8% last year, based on the latest estimate from eVestment.)

Finally, industry professionals were asked whether hedge funds face an identity crisis as more managers target less-liquid assets and niche strategies, often imposing long-term lockups that are more in line with private equity funds.

"They already have lost their 'historic' identity and have gone from actively traded to actively managed, to sticky and concentrated, to factor-based," said **Donald Motschwiller,** chief executive at **First New York Securities.**

**Jane Buchan,** co-founder of **Pacific Alternative Asset Management,** took a different view. "This is what hedge funds excel at — go anywhere," she said.

"It has always been a spectrum," said a fund-of-funds manager. "Especially as people want to reach for yield, and traditional bonds suck, and as traditional private equity returns decline, the middle ground starts to look better as an option to consider." ❖

**Glossary of Hedge Fund Terms**

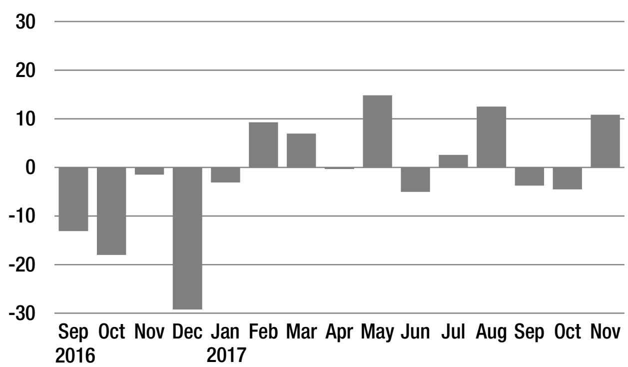
The next time you're stumped by alternative-investment jargon, clear up your confusion by visiting the "Glossary" link in the Market section of HFAlert.com. You'll find scores of plain-English definitions for most key terms in the hedge fund business.

## Inflows/Outflows by Strategy

| | Flows Nov. ($Bil.) | Flows YTD ($Bil.) | Assets 11/30/17 ($Bil.) |
|---|---|---|---|
| All hedge funds | $10.8 | $40.1 | $3,265.9 |
| **Fund type** | | | |
| Equity | 9.3 | 25.0 | 1,131.9 |
| Fixed income/credit | 0.6 | 9.2 | 983.7 |
| Commodities | -2.2 | -1.1 | 79.7 |
| Multi-asset | 3.1 | 5.2 | 1,129.2 |
| **Primary strategy** | | | |
| Convertible arbitrage | 0.3 | 0.7 | 53.5 |
| Directional credit | 1.7 | 11.4 | 150.1 |
| Distressed | -0.3 | -2.8 | 238.5 |
| Event driven | -0.6 | -6.6 | 532.0 |
| Long/short equity | 7.6 | 16.2 | 786.7 |
| Macro | -1.6 | 12.9 | 235.3 |
| Managed futures | 1.8 | 3.9 | 130.6 |
| Market neutral equity | 0.9 | 10.1 | 68.8 |
| MBS strategies | 0.1 | -5.3 | 85.7 |
| Multi-strategy | 4.2 | 1.2 | 532.5 |
| Relative value credit | -2.5 | -7.3 | 227.9 |

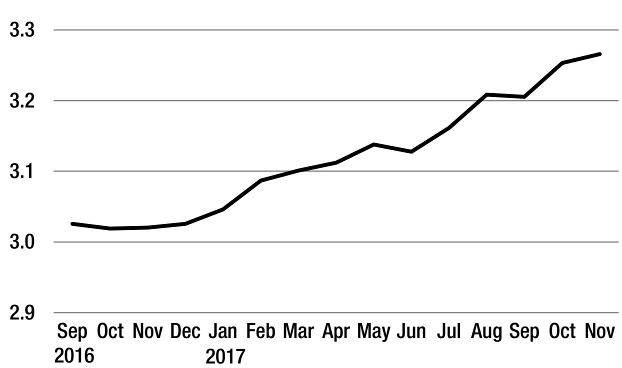
### Investor Flows

Estimates for all single-manager hedge funds ($Bil.)




### Assets Under Management

Estimates for all single-manager hedge funds ($Tril.)




**Source: eVestment**

## New Path for Industrial-Stock Pro

Stock picker **Craig Shapiro** is seeking relief from the headaches of entrepreneurship by joining a larger fund shop.

Shapiro recently shut down a New York firm called **Circle Lane Capital** that he had started in July 2016 with a focus on investments in industrial-company stocks. This month, he signed on with **Sol Kumin's Folger Hill Asset Management.**

As a portfolio manager at that $1 billion operation, also in New York, Shapiro is selecting positions in the shares of cyclical "old-economy" businesses. The approach is similar to the one he employed at Circle Hill and, before that, at **Point72 Asset Management,** the Stamford, Conn., family office of **Steve Cohen.**

Shapiro also has worked at **Plural Investments, Union Avenue Advisors** and **Ospraie Management.**

He started Circle Lane with $5 million and by September 2016 was running $40 million. But the firm's size after that couldn't be learned.

Shapiro's move to Folger Hill fits into a trend in which larger firms have been attracting managers who no longer want to deal with the burdens of running their own businesses or have learned they weren't cut out for that work. For example: **Tyson Strauser** shuttered his **Trenchant Capital** at yearend to join **Citadel; Joel Drescher** closed his **Drescher Capital** to join **Millennium Management;** and **Adam Fisher** pulled the plug on **CommonWealth Opportunity Capital** to take a job at **Soros Fund Management.**

Kumin started Folger Hill in 2014 after leaving the chief operating officer post at Point72's predecessor company, **SAC Capital.** He operates with backing from **Leucadia National.**

The U.S. version of Folger Hill's flagship Folger Hill Partners Master Fund gained 2.6% in 2017, following declines of 17.5% in 2016 and 3.2% in 2015. An Asia fund Folger Hill launched in late 2016 was up 3.6% in 2017. ❖

## Crypto Fund Tally Still Growing

The hedge fund industry's cryptocurrency sector continued its robust growth over the past couple of months.

The number of funds investing primarily in bitcoin, ether and other digital currencies has reached 130, up 10 since **Hedge Fund Alert** published its first list of crypto funds on Nov. 15.

Fund operators added to the list since then are **3iQ Corp., Arrington XRP Capital, Autodidactic, Blackchain Capital, Cambrian Asset Management, CoinAlpha Advisors, Dekrypt Capital, LDGR Capital, Miller Value Partners, Mutual Coin Fund, Pacific Crypto, SALT Blockchain Asset Management, Starchain Capital** and **Synapse Capital.**

Among those removed from the list was **Galaxy Investment Partners,** led by **Michael Novogratz.** In December, he suspended his effort to start what was envisioned as a $500 million fund due to his bearishness about the near-term value of bitcoin.

The newsletter's updated crypto fund listing can be found in the Market section of HFAlert.com. ❖

## Vehicle ... From Page 1

of the second quarter. He's scheduled to meet this quarter with prospective investors in Boston, Chicago, Dallas, San Francisco and Portland, Ore.

Fund 2 would have a seven-year term, with two one-year extension options. Limited partners would receive a 6% preferred return, after which the general partner would be entitled to a "catch-up" distribution. Investors would pay a 20% performance fee on any additional profits. The fund would charge a 1.25% management fee on drawn capital, as well as 0.25% on undrawn commitments for up to a year.

In interviews and speaking engagements, Ganti has been an outspoken proponent of avoiding liquid securities markets in favor of illiquid opportunities that reward patience and expertise. Orthogon often forms joint ventures with local operating partners familiar with the targeted investments. Examples include distressed real estate in Spain, nonperforming loans in Portugal and specialty-finance receivables in Italy.

"Esoterics are non-market, non-bid assets. Investing in esoterics minimizes price competition, raising risk-adjusted return," according to an Orthogon tearsheet.

Orthogon's portfolio gained 10% last year through Nov. 30, versus a 7.5% increase for the broad-based HFRI Fund Weighted Composite Index during the same period.

Ganti spent about eight years at Two Sigma, where he was the first full-time investment professional assigned to manage the wealth of the firm's principals, including founders **John Overdeck** and **David Siegel.** Ganti's strategy is the antithesis of the highly automated investment analysis and trading Two Sigma performs for its clients. The New York firm ranks among the world's largest quantitative hedge fund managers, with a little more than $50 billion under management.

At Orthogon, Ganti is assisted on the investment side by **Brian Lee,** formerly an associate at Two Sigma and an investment-banking analyst at **Credit Suisse.** Ganti's operations team is led by **Branko Belusic,** formerly chief financial officer at the **Alpha Cooperative** and **Clearvest,** and **Dominique Severino,** who previously worked at **Blackstone** and **Garrison Investment.**

Orthogon is looking to hire an investment professional with experience in deal origination and structuring. And it intends to add a chief compliance officer in the third quarter. ❖

## LATEST LAUNCHES

| Fund | Portfolio managers, Management company | Strategy | Service providers | Launch | Equity at Launch (Mil.) |
|---|---|---|---|---|---|
| **Orthogon Partners 2**<br>☛See Page 1 | Rishi Ganti<br>Orthogon Partners,<br>New York<br>information@orthogon.partners | Illiquid assets (long-term lockup) | Law firm: Arnold & Porter<br>Auditor: Ernst & Young<br>Administrator: Ophrys | 2Q-18 | <$200 |

**To view all past Latest Launches entries, subscribers can click on the Databases tab at HFAlert.com**

## THE GRAPEVINE

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at **BlackRock.** Kennedy Lewis is led by former **CarVal Investors** executive **David Chene** and **Darren Richman,** previously of **GSO Blackstone.** It launched on Nov. 15 with about $250 million.

**Mark Polemeni** has left his post as chief compliance officer at **Citadel** to take the same position at **Perella Weinberg Partners,** where he started in December. Polemeni also held the title of associate general counsel at Citadel, where he started in 2011. Before that, he spent time at **Odyssey Investment** and **Alexandra Investment.** New York-based Perella Weinberg was managing $13.4 billion on Dec. 1.

**Cherry Valley Solutions** picked up two partners this month. **Penn Miller-Jones** signed on as an executive director overseeing business-development efforts at the New York firm, which handles operational functions for fund managers. He also continues to run **Adare Advisors,** a separate fund-marketing business he started last March. Miller-Jones counts **Cowen Prime Services, Jefferies** and **Bank of America** among his former employers. Also joining Cherry Valley was chief operating officer **Helen Koutsogiannis,** who had been working at **McKinsey & Co.** unit **MIO Partners** since 2015. Earlier, she spent time at **Centerbridge Partners, Cerberus Capital, Silver Point Capital** and **Abacus & Associates.** Cherry Valley was founded last year by former **Clovis Capital** executive **Jeffrey Podell.**

**Todd Young** joined **MKP Capital** in December as an associate portfolio manager covering interest-rate products. Young most recently was employed from May to November as a researcher at **Millennium Management.** He also has worked at **Swiss Re.** MKP is led by chief executive **Rich Lightburn,** along with managing members **Thomas DeVita, Henry Lee** and **Patrick McMahon.** The New York firm manages $6.3 billion across a mix of strategies.

Debt-fund operator **Cross Ocean Partners** has hired **Nick ap Simon** to head its marketing efforts in Europe, the Middle East and Africa. Simon arrived in the Greenwich, Conn., firm's London outpost in November from the top alternative-investment sales post at **Ashmore,** where he had worked since 2013. He also has spent time at **Partners Group** and **Man Group.** Cross Ocean is led by **Graham Goldsmith.** It was managing $157 million of gross assets on Feb. 28.

**Capstone Investment** has hired a head of human resources. **Heather Haigh** joined the New York firm in December from **Steve Cohen's Point72 Asset Management.** She had been employed at Point72 and predecessor **SAC Capital** since 2004. Capstone is led by founder **Paul Britton.** The firm, which pursues a mix of volatility-driven trades, was managing $5.6 billion on Dec. 1.

**Citadel** equity-trading unit **Surveyor Capital** has hired a business analyst. The New York-based recruit, **Patrick Clifford,** is working with the operation's business-development, investment and engineering teams. Clifford had been employed at **BlackRock** since 2012, most recently as an associate in the firm's securities-lending division. Citadel has $27 billion under management.




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