



## Interview with Dariush Aryeh

Published on June 19, 2021

A 3 minutes interview with Dariush Aryeh. 1. Hedge Funds are coming out of two strong years. Do you think this will continue? 2. Do you think the Fund-of-Hedge Funds business model is still relevant? 3. What strategy do you recommend to your investors currently?

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### 1. Hedge Funds are coming out of two strong years. Do you think this will continue?

Dariush Aryeh: “We are living in exceptional times, which are creating a great many opportunities for managers! Investors are starting to realize this and are coming back to Hedge Funds. At the industry level, inflows have been positive for the last several quarters and AUM are at an all-time high of USD 3.8 trillion according to HFR.

“We have an unprecedented stimulus from governments, massive growth in GDP and certain sectors due to the economic re-openings around the world, while at the same time we are going through a historical digitalization of our societies. Can you think of better times for Hedge Fund managers?



“And just like last year, I think the best managers will be the discretionary ones: those who can see that some structural changes are happening and can adapt to it to seize opportunities. This is why Hedge Funds were created to begin with: unconstrained portfolio management enables managers to adjust to any environment.

“But let’s be clear: not all managers will do well and thus manager selection will be key again. As you know, the dispersion between the best and the worst managers is significant in alternative investments. I expect the market to remain volatile for the next 18 months with potentially large drawdowns. This assumption drives our manager selection: we only hire managers that can risk manage their drawdowns flawlessly (i.e., lose less than the market) and take advantage of any dislocations to reposition their portfolios for the next cycle and capture the market upside.

“While the last six months have been challenging for some managers on the back of a significant market rotation led by higher rates and economies re-opening, the second part of the year could prove to be exceptional again. Indeed, we have started to see good alpha from managers in June. This is typical when a rotation occurs: an initial dislocation is followed by managers repositioning their portfolios which ultimately leads to alpha.”

## 2. Do you think the Fund-of-Hedge Funds business model is still relevant?

Dariusz Aryeh: “If you are finding and providing access to the best Hedge Fund managers in the world, you have a real added value and a business. If not, you will interest practically no-one.

“Scouting talent is one of our main missions. We were early investors with managers like Julian Robertson (Tiger), Arthur Sandberg (Pequot), Jamie Dinan (York), Leon Cooperman (Omega), Schiffman / Immerman (Palestra), etc...just to name a few great managers. When we started back in 1993 finding managers was harder than today as you did not have the internet, databases or capital introduction teams. You had to create your own network and harvest it.

“One thing has not changed however: we are still investing in people! Not in funds but in exceptional investment managers. Investment and risk management processes are necessary but not sufficient.

We look for managers that are passionate about their craft, dedicated to making returns for their investors, willing to learn constantly and last but not least with original ideas. Out of the 10,000 or so managers that are out there, I think less than 1% can be labelled as great managers.”

### 3. What strategy do you recommend to your investors currently?

Dariusz Aryeh: “Within the Long/Short Equity strategy we favour discretionary managers focusing on a sector like Consumer, TMT or Healthcare. We think the best managers for the next 18 months will have three common characteristics: they will typically manage between \$500M and \$2Bn; they will have a small balance sheet (around 100% Long and 50% Short); and they are not only great stock pickers but also outstanding portfolio managers. The first two characteristics will enable them to be nimble and move their portfolios when they need to. Implicitly, this means avoiding big managers with high leverage.

“In addition, it’s important to realize that the best managers understand when to stick to their company specific fundamental convictions and when to shift the focus to portfolio management with balance sheet management and stock repositioning. They know when to tolerate euphoria up to the point that it becomes irrational. Knowing when and how to make these changes are paramount to minimizing losses and capturing market changes. A manager cannot ignore the power of momentum but at the same time he needs to protect capital on the downside. Very few have the necessary experience and wisdom to master this tension perfectly. Having them in your portfolio makes a significant difference to performance but also to your risk management.”