

OPALESQUE newmanagers

Opalesque's Emerging Manager Monitor

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The median and average sizes of the new launches have been cut in half post 2008

The Fundana series of articles discusses Investments in Emerging Managers; it derives from the real world experience of the Fundana team. Fundana is the investment advisor to several Funds of Hedge Funds and directs approximately half of its new investments to Emerging Managers. The investment process typically involves allocating a small amount Day 1 or Early Stage (defined as less than 1Y after the fund's launch) to new managers who have strong pedigrees.

The objective of this series of articles is to share thoughts around our key observations. It does not aim to be “statistically significant” but to create a dialogue around our observations.

The Emerging Managers space is currently in vogue. Following the 2008 credit crisis, allocators focused first on the opportunity to invest with previously hard-closed Blue Chip hedge fund managers. Now that most of those funds are hard-closed again, investors are taking another look at Emerging Managers.

This article looks at the **level of assets raised by the managers at the launch of their funds before the 2008 crisis and after the crisis.**

It focuses on the small and mid-sized launches (typical Day 1 assets under management (“AUM”) of between \$20m and \$500m) as Fundana does not invest in the very large new launches (>\$1bn at launch). The dataset has been compiled from all the new investments made since January 2006, encompassing 66 new investments to date in the Long/Short Equity, Global Macro and Event Driven strategies.

What impact did the crisis have on Day 1 investments?

For the purpose of this article, we consider two separate periods: the first period runs from January 2006 to July 2008, hence before the industry crisis; and the second period runs from August 2008 to date. The team conducted 25 Day 1 / Early Stage investments in the first period and 41 in the second period, for a ratio of 0.81 Day 1 / Early Stage investments per month in the first period and 0.93 in the second period. Total assets raised by the 66 managers amounted to 8.45bn\$ at launch, for an average 128M\$ per fund and a median of 100M\$.

Table 1 presents the breakdown of the assets raised by the managers, in aggregate and for each period.

(AUM) at launch	Since January 2006	Pre July 2008	Post July 2008	Change
Number of investments	66	25	41	
Maximum	680M\$	680M\$	280M\$	-59%
Average	128M\$	184M\$	94M\$	-49%
Median	100M\$	130M\$	60M\$	-54%
Minimum	4M\$	30M\$	4M\$	-87%
Total	8.45bn\$	4.60bn\$	3.85bn\$	

Table 1: Evolution of the assets raised Day 1 by the new hedge fund managers

From this it is clear that the new launches after the crisis have been smaller than the ones before, raising on average half the assets that their predecessors raised. The median presents a similar result, indicating that the outliers of the database have had little impact. Looking at the breakdown of the assets of the new launches in Figure 1, we observe a significant skew towards small asset base in the second period compared to a more evenly distributed asset base in the first period.

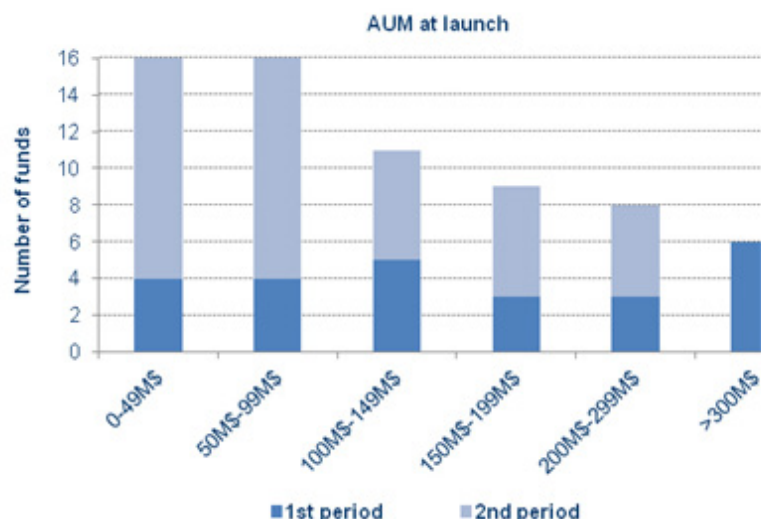


Figure 1: Level of assets raised by the new hedge fund managers

Refining this analysis, we want to look at the effective external assets raised by the managers at launch, hence removing the seed deal investments (if any) and the personal investments from the portfolio managers. We classify as External AUM the assets invested by the other investors at launch.

External AUM at launch	Since January 2006	Pre July 2008	Post July 2008	Change
Maximum	650M\$	650M\$	260M\$	-60%
Average	75M\$	131M\$	41M\$	-69%
Median	35M\$	67M\$	10M\$	-85%
Minimum	0M\$	2M\$	0M\$	
Total	4.94bn\$	3.28bn\$	1.66bn\$	
% of Total AUM at launch	58%	71%	43%	

Table 2: External assets raised Day 1 by the new hedge fund managers

As Table 2 shows, not only has the asset base of the new managers shrunk by half post the 2008 credit crisis (as seen in Table 1), but half of the managers have received \$10m or less from external investors (a 85% decrease from before the crisis). After the crisis, investors have represented less than half of the money (~43%) invested Day 1. In fact, only 5 managers raised more than \$100m external money in the second period (~12% of the new launches we participated in) compared to 10 managers that raised that amount in the first period (~40%).

This confirms a few trends which we have observed recently:

- 1) The median and average sizes of the new launches have been cut in half post 2008.
- 2) While the majority of Day 1 money came from external investors pre-

2008, new hedge fund managers post 2008 rely a lot more on seed deals, anchor investors and their personal commitment in order to start with a meaningful asset base.

3) The tendency of new launches to be binary - a few winners (Azentus, Edoma...) - attracts most clients, while the other managers have to wait longer than before to grow, despite having all strong pedigrees.



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