TOP 10 UCITS PLATFORMS 2014

Buoyed by the introduction of the AIFMD and changing investor sentiment, alternative Ucits hedge fund platforms enjoyed record growth this year

BY MAIYA KEIDAN

For some time, experts have predicted the AIFMD would push non-EU managers towards the alternative Ucits space. Our annual platform survey appears to show significant evidence of this trend with nearly $9bn ploughed into the top 10 this year, and nearly all the platforms citing US interest as a prime driver.

The $8.72bn jump in the top 10 Ucits platforms' combined AuM, a 43% increase, exceeds last year's increase of approximately $6bn on 2012's research. Only three of the top 10 failed to grow more than 50%.

Almost all players enjoyed a strong 12-month growth, with Bank of America Merrill Lynch (Baml) gaining the most assets ($2.95bn), and Schroder GAIA's gains ($2.77bn) not far behind at $2.68bn. Morgan Stanley and Montlake, meanwhile, more than doubled their assets, and Goldman Sachs grew its platform assets by 59%.

"The single biggest trend has been the rise in interest from US-based managers looking to launch a Ucits," Andrew Dreaneen, head of Schroder GAIA Product & Business Development, tells *HFMWeek*. "There are a number of reasons for this, including the need to have an AIFMD or Ucits passport to market widely in Europe."

Irish Funds Industry Association head of business development Kieran Fox says: "We have seen anecdotally over the past six months that, where previously US managers thought they could stay out of Europe and ignore the AIFMD, the vast majority now think they have to do something, whether it's to use the private placement regime, set up an AIFMD structure or launch a Ucits product."

Without fail, all Ucits providers that saw growth cited increased demand from non-EU managers and investors, particularly in the US, as the biggest trend in 2014.

Stephane Berthet, executive director at Morgan Stanley, says: "The AIFMD has pushed many non-European-based hedge fund managers to take a closer look at Ucits funds."

Some providers, like Alpha Ucits, say the huge drive towards mutual hedge funds in the US has increased US interest in hedge fund Ucits, and been another big driver. Stephane Diederich, CEO at Alpha Ucits says: "The trend towards '40 Act funds has helped US managers to become more interested in Ucits funds."

Looking ahead, some of the platforms are predicting the AIFMD and other regulations will

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ALPHA UCITS

HEDGE FUND UCITS AuM **$205m**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
92% ($107m)	3	+1

Last year's new entrant Alpha Ucits is among the providers that almost doubled their assets, adding almost $100m over the past 12 months. The London-headquartered firm is the brainchild of former Brevan Howard partner Stephane Diederich.

Some of the platform's standout funds include the Amber Equity Fund and Anavon Global Equity Long/Short Fund. It expects to add three to five funds and double its assets by end-2015.

Diederich says the increased investor demand has led to an increase in hedge fund Ucits launches. "Some managers prefer launching Ucits funds to becoming an AIFM," he says, adding that the trend towards '40 Act funds has helped US managers to become more interested in Ucits.

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GOLDMAN SACHS

HEDGE FUND UCITS AuM **$432m**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
59% ($272m)	2	-2

Goldman Sachs, like Montlake, is another one of several umbrellas to enjoy stellar 12-month growth, while being overshadowed by progress further up the list. Goldman Sachs saw assets rise by 59% over the past year, despite cutting its total number of funds on the platform in half.

Pooja Mishra Prahlad is the head of the Luxembourg-based Serviced Platform SICAV & Structured Investments SICAV, which expects to add three funds over the next 12 months.

The umbrella is actively looking for discretionary macro and event-driven managers and does not anticipate any capacity constraints.

TOP 5

BY 12-MONTH PERCENTAGE GROWTH

- 424% LYXOR
- 108% MORGAN STANLEY
- 101% MONTLAKE
- 97% SCHRODER GAIA
- 95% BAML

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MONTLAKE

HEDGE FUND UCITS AuM **$825m**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
101% ($410m)	12	+7

ML Capital's Montlake may have moved down one peg but that's more attributable to the general increase in overall capital in the industry. Montlake saw a successful year, doubling its assets from $410m 12 months ago to $825m at end-September.

The Ireland-domiciled umbrella added seven funds from last year, is in active conversations with a number of potential managers and expects to add a further six funds by end-2015.

Richard Day, Montlake COO, says while inflows over the last 12 months have been slower than expected, the platform has witnessed growth across all products and strategies have outperformed a number of peers.

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ALCEDA

HEDGE FUND UCITS AuM **$974m**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
-12% ($1.10bn)	17	+8

Despite a -12% drop over the previous 12 months, the Luxembourg-based firm, owned by German investment manager Aquila Group, expects to add about two to four funds to its platform, and increase its AuM by $500m to $1bn, by end-2015.

Alceda tells *HFMWeek* that it expects more offshore managers to enter the Ucits world in order to tap into different sources of capital, and that this should drive an AuM increase. "Clearly the alternative industry is at a crossroads," says Michael Sanders, CEO at Alceda. "A combination of intense regulation, cost pressure, consolidation and globalisation is forcing many managers to take a close look at the business and operating models."

LYXOR

HEDGE FUND UCITS AuM **$1.51bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
424% ($288m)	6	+2

Paris-based Lyxor produced some impressive growth over the past 12 months, gaining two funds, growing its assets by over 400%, from a mere $288m last year to $1.51bn, and moving up two ranks.

In 2013, Lyxor launched three new Ucits managers and each fund has generated strong investor interest. Among these launches was Tiedemann Arbitrage, which aims to generate strong profits from complex merger and acquisition deals while limiting losses through actively hedged protection.

Another 2013 launch, Canyon Credit is a manager experienced in trading debt markets, mainly in the US, and is focusing on the more liquid credit trades that do not necessarily go into their longer horizon offshore hedge fund.

Lyxor plans to add up to three or four Ucits funds across different strategies to its hedge fund platform. "We are particularly interested in adding managers running US long/short equity or emerging markets strategies, as well as specialised credit strategies," says Daniele Spada, head of Lyxor managed account platform.

MORGAN STANLEY

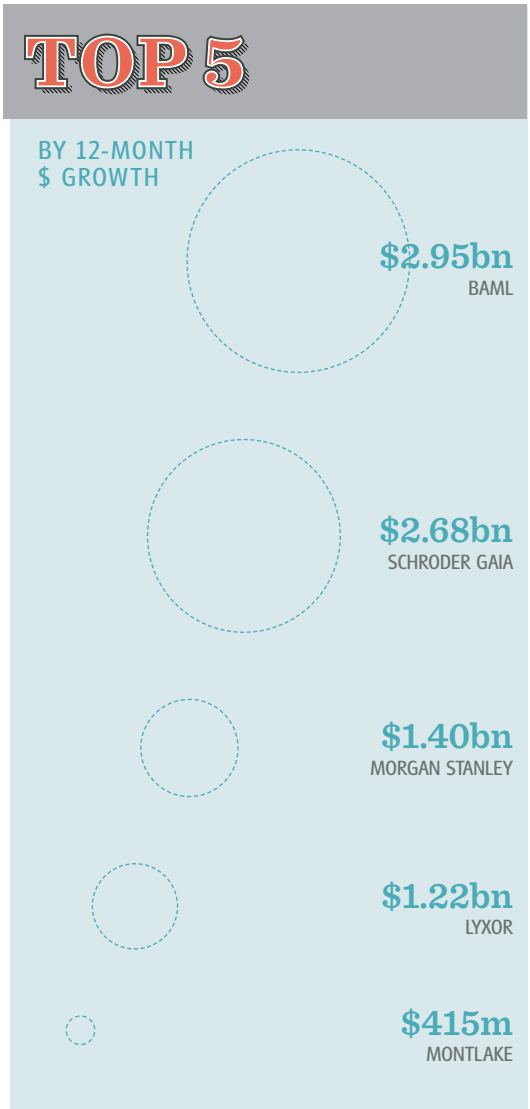
HEDGE FUND UCITS AuM **$2.7bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
108% ($1.3bn)	17	-1

Morgan Stanley may be down one fund this year but it grew its assets 108%, from $1.3bn to $2.7bn. The firm attributed the gains to significant inflows over the course of the year, with a noticeable pick-up from last year. Its investor base has become more diversified, with investments from private banks and funds of funds, asset managers, family offices and insurance companies. Outflows have predominantly been driven by volatile performance from some of the managers.

"Inflows over the last year have exceeded expectations," says Stephane Berthet, executive director at Morgan Stanley, after the firm oversaw many new event-driven, market-neutral and emerging market funds being launched over the last year. Berthet says Morgan Stanley is currently looking to expand its macro and credit offering.

Morgan Stanley hopes to add another three to five funds in 2015, and reach $3.5bn to $4bn in AuM.



continue the trend of strong Ucits growth at the expense of traditional Cayman-backed strategies. Diederich notes the continued trend in Europe towards investing in hedge funds through Ucits rather than traditional offshore funds or managed accounts. "Personally I believe the AuM in hedge fund Ucits will be larger than the AuM in Cayman funds in three to five years," he says.

Platform providers suggest it's much easier for US-based hedge fund companies to set up a European Ucits via a platform, given they are able to outsource structuring and administration.

Richard Day, COO at Montlake, says: "'Ucits are expensive' is something that we hear from managers on a daily basis. Actually, what they mean is 'building any new fund structure and allocating resources to run it properly is expensive'. We have built a robust operating structure, which allows managers to come to market in a cost and time effective manner."

Morgan Stanley's Berthet says much of the interest stems from US-based hedge fund companies looking for an outsourced structure. "We have seen a pick-up of managers not only looking for a platform, but particular platforms," he says. "Managers are far more specific as to what they expect from a platform."

Hugh Hunter at Independent Ucits agrees. "There has been a growing tendency for the largest offshore hedge fund groups to opt to develop their Ucits strategies on platforms rather than establishing their own fund structures," he says.

Independent Ucits has $35m in hedge fund Ucits on its platform, with another $10m in a relative value due to be launched in January.

Hunter adds: "There has been a surge of interest in the last 12 months in platforms generally, and particularly in independent solutions that allow managers to retain their branding and autonomy. Platform solutions are seen as the most efficient way to access the Ucits market without the initial investment and ongoing responsibilities."

Other umbrellas credit the positive inflows into the industry to the product itself. "Alternative Ucits are currently attracting strong inflows because they are targeting different investors to some of the more traditional offshore hedge fund structures," says Daniele Spada, head of Lyxor managed account platform. "We have seen demand booming based on two main pillars: the first being selective distribution, or the private banking market; and the second being via asset managers and traditional fund of funds."

Positively for managers, some umbrellas are predicting platform fees will come down. They say that while initially some platforms were pricing hedge fund Ucits like managed accounts, there is now a convergence between the operational costs on hedge fund Ucits and offshore funds. "We even know several examples where the Ucits version has cheaper operational costs than the offshore fund on the same strategy," says Diederich.

The number of funds closed on the top 10 largest platforms varied, with Universal-Investment having closed four funds for new investors, Schroder Gaia having closed Egerton Equity and close to capacity on Schroder Gaia Cat Bond and Alceda closed its Spectrum fund.

While the vast majority of Ucits providers in *HFMWeek*'s top 10 saw growth – and a great deal of it – some saw a retraction. Universal-Investment, which last year took the top spot for the first time, remains top but suffered -1% growth. And Alceda saw a decrease of -12% this year. However, the Luxembourg-based firm, owned by German investment manager Aquila Group, remains positive and expects to add about two to four funds to its platform, and increase its AuM by $500m to $1bn, in the next 12 months. This year also saw Deutsche Bank being ratcheted down two slots to number four after static growth of 3% over the past 12 months.

After such dynamic growth in 2014, it's hard to say who will be knocked down the list and who will charge further up. But if Universal-Investment continues to decline in assets, Baml and Schroder GAIA could soon be candidates for the top slot.

RATIONALE

This survey does not aspire to cover the entire Ucits hedge fund sector, just those held at the top 10 largest Ucits platforms. To be eligible, a platform must have at least on externally managed fund. HFMWeek's definition of hedge fund Ucits excludes 130/30 funds and external ETFs. AuM details included are as of the end of October 2014, with the exception of Deutsche Bank (27 November 2014) and Alceda (25 September 2014). Please note: growth statistics for Deutsche Bank are based on a revised AuM total for 2014, as submitted by the platform.

DEUTSCHE BANK

HEDGE FUND UCITS AuM **$3.4bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
3% ($3.3bn)	18	0

After a static year last year, Deutsche Bank has grown by just 3% in assets over the last 12 months, dropping two places to number four. However, despite the lack of growth in AuM, the firm's dbalternatives Ucits platform – with funds branded under the Platinum moniker – has maintained more than $3bn in AuM.

The platform had enjoyed stellar growth in the 2011 and 2012 surveys, and even took the number one rank in 2012.

London-based Winton, Omega Advisors and Hermes all offer strategies on the Platinum platform.

SCHRODER GAIA

HEDGE FUND UCITS AuM **$5.45bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
97% ($2.77bn)	6	0

Second in gains only to Baml, Schroder GAIA proved to be one of the biggest success stories of the last 12 months, adding $2.68bn in assets. Even with some of the biggest names in the industry, including Paulson & Co., Sirios Capital Management and Egerton, Schroder GAIA hopes to launch another three to four funds in the coming 12 months, and eventually grow AuM to $7bn.

"We are constantly looking for new managers and strategies that will complement those already on our platform," says Andrew Dreaneen, head of Schroder GAIA Product & Business Development. "Currently we are assessing various quantitative and fundamental equity, fixed income, event and macro strategies."

Inflows into the Schroder GAIA platform came mainly from discretionary portfolio managers, private banks, family offices and fund of funds in Europe, with very strong interest from clients based in Latin America and Asia.

BANK OF AMERICA MERRILL LYNCH

HEDGE FUND UCITS AuM **$6.07bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
95% ($3.12bn)	23	+9

Bank of America Merrill Lynch (Baml) may not have reached the top spot yet, but the bank's platform is on a steady incline after moving up from the number three position last year and adding a whopping $2.95bn in assets over the last 12 months.

The platform, which nearly doubled its assets, launched seven funds over the last 12 months, with 23 Ucits funds now live in total, up from just 14 last year.

Many of the industry's heavy hitters sit on the platform, including AQR, Och-Ziff and Marshall Wace. Marshall Wace TOPS UCITS Fund (Market Neutral) is the largest fund on the platform by far, with €1.57bn ($1.94bn) in assets.

UNIVERSAL-INVESTMENT

HEDGE FUND UCITS AuM **$6.94bn**

12-MONTH GROWTH:	UCITS HEDGE FUNDS:	12-MONTH NET FUND ADDITIONS:
-1% ($7.03bn)	50	+5

After reporting $4bn in inflows over the course of the 2013 into its hedge fund Ucits products from "all types of investors", growth slowed to -1% over the last 12 months. But while assets were knocked down from $7.03bn to $6.94bn, Universal-Investment still managed to add five funds and retain its top spot.

The platform provider is the biggest independent investment company in German-speaking Europe and the third largest German fund company. It expects to add more specialised hedge fund managers wrapping their strategies into a Ucits banner, such as healthcare long/short. "We experience that strategies are getting more and more diverse," says Andreas Hausladen, head of Private Label Business Development. "Investors now also watch for niche strategies and products such as Healthcare Long/Short or Frontier Markets absolute return."