UCITS GROWTH: 2014 AND BEYOND

CYRIL DELAMARE, CEO AT **ML CAPITAL**, TALKS TO *HFMWEEK* ABOUT HOW ALTERNATIVE UCITS FUNDS HAVE GROWN IN POPULARITY AND WHERE THE OPPORTUNITIES FOR THIS FUND TYPE ARE

Cyril Delamare is the chief executive officer ML Capital, investment manager to the MontLake Ucits platform. Prior to co-founding ML Capital in 2009, Cyril was a partner at Tara Capital, a leading global distributor of hedge funds which helped money management clients attract over $3bn in new assets. .

HFMWeek (HFM): What is the opportunity today for alternative Ucits and where do you see the growth in liquid alternatives?

Cyril Delamare (CD): The liquid alternatives industry is currently one of the fastest growing segments across the globe from an investment perspective and has come a very long way in a few short years post crisis. Highlighted across a number of industry sources, alternative Ucits AUM today stands in excess of $250bn and is predicted to continue its rapid growth of 30% per annum year-on-year.

At ML Capital we believe that the greatest opportunity for future asset raising clearly lies in the alternative fund industry's ability to attract mainstream investors into their funds. There is currently over $7trn of assets being managed within Ucits and some leading industry commentators believe that alternative Ucits strategies could represent 20-30% of all Ucits asset within 10 years.

The forecasted meteoric growth in alternative Ucits represents an excellent opportunity for alternative managers to venture into the European regulated space and reach a new pool of investors who focus solely on regulated funds.

> "THE FORECASTED METEORIC GROWTH IN ALTERNATIVE UCITS REPRESENTS AN EXCELLENT OPPORTUNITY FOR ALTERNATIVE MANAGERS TO VENTURE INTO THE EUROPEAN REGULATED SPACE"

HFM: What factors should dictate a manager's decision to launch a Ucits or AIFMD fund structure?

CD: The underlying strategy of a product really dictates whether a manager should launch a Ucits or AIFMD fund structure. If you look at the various different asset classes, there is a clear divide between Ucits compliant and non-compliant strategies. In our view, a manager running a sufficiently liquid strategy that can operate within the Ucits boundaries should always launch under Ucits.

Ucits as a brand has significant global investor demand, something that has been built over a number of decades. By contrast, AIFMD as a brand is very much the new kid on the block, its journey only just beginning.

While we see a clear place for non-Ucits regulated funds – that can be freely marketed across Europe, only when investors actively start seeking out these fund structures will AIFMD be able to stand shoulder to shoulder with Ucits.

HFM: What are the key considerations to marketing Ucits funds in Europe?

CD: A common misconception of many hedge fund managers is that by launching an alternative Ucits fund you are immediately open for public sale in the key markets in Europe. The reality is far from this and a lot of work needs to be given to country registrations, tax reporting in key markets and access to key platform providers that control so much of the investor flow.

Once ready operationally you need to have the resources at your disposal to sell the fund – resources that understand the intricacies of each of the core markets, have the ability to converse in the native language and have access to the key decision makers.

HFM: Which countries are key sources of investor flow, in Europe and further afield?

CD: The largest flows into alternative Ucits today from within Europe are from the UK, France, Germany and Italy. Each of these countries have embraced alternative Ucits in a significant way, in many cases far more so than they ever did hedge funds.

The question to ask yourself though is how do I capitalise on these flows and steer them into my own fund vehicles. Simply put, you need to know each of the core markets in detail and have a clear plan on how to position your fund to best capture investor flow.

In order to build a successful strategy it is imperative that you first understand who within each market is driving the flows. By way of an example, Italy today is dominated by bank led distribution into the wealth management channels; in contrast flows in Germany are being driven via consultants who in turn are representing pension funds and insurance companies. Accessing these channels is extremely difficult for an inexperienced marketer, local expertise is definitely required.

Looking further afield, Switzerland is becoming increasingly interesting for alternative Ucits funds. With the raft of incoming FINMA regulations, it is becoming progressively more difficult for managers to distribute offshore funds, locally registered or not. Allocators who we

have known for years are now having to embrace Ucits, something they vowed never to do.

HFM: What opportunities exist for alternative Ucits asset raising outside of Europe?

CD: While most managers to date have primarily focused on Europe for their alternative Ucits asset raising, clear opportunities exist further afield.

Asia has always been an attractive market and interest from investors in Taiwan and Korea has never been higher. Taiwan is widely seen as the fastest growing Asian market, whilst Korea remains a key jurisdiction, with many large institutional players being extremely active in the alternatives Ucits space. Japan is also gaining in significance and recent rules changes look like they may simplify distribution into this exciting market. South America, largely accessed via the Miami offshore broker community, also offers interesting prospect for managers seeking alternative sources of investors. An area that we also see growing in significance is that of the offshore IFA, a market which tends to cater to the ex-pat community across the world.

It is clear that there are a number of areas that will provide a key development angle for managers going forward. Finding the right local partner to support your distribution efforts is key.

> "THROUGHOUT 2014, INVESTORS HAVE SHOWN MOST INTEREST FOR FIXED-INCOME, DISCRETIONARY MACRO AND NON-DIRECTIONAL EQUITY FUNDS AND NET INFLOWS HAVE BACKED THIS UP"

HFM: What strategies are selling best and where do the opportunities lie in 2015?

CD: Each quarter ML Capital publishes its Alternative Ucits Barometer, a forward-looking research report which surveys a number of investors to uncover current appetite for a number of strategies in terms of future allocations. Investor themes and opinions reported in our survey this year have played out into wider market sentiment and allocations. Throughout 2014, investors have shown most interest for fixed-income, discretionary macro and non-directional equity funds and net inflows have backed this up.

Moving into 2015, we are confident that the strategies that have proven most resilient in 2014 will continue to remain at the forefront of investor demand. Somewhat surprisingly, given the extreme volatility in equity markets these past few weeks, we also expect equity strategies, specifically Asia, EM and global, to attract significant inflows and, lastly, we see demand for CTA strategies finally picking up and we expect to see net inflows into the asset class for the first time in three years. ■