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Hedge Fund ALERT

OCTOBER 28, 2015

Good Harbor Battered by Losses, Withdrawals

Good Harbor Financial is bleeding assets — so much so that **Wells Fargo** is warning it may not survive.

Good Harbor, which offers alternative-investment products to retail investors via brokers and financial advisors, saw its assets shrink from a peak of $11.5 billion in the first quarter of 2014 to just $1.65 billion as of June 30. Almost all of the remaining capital resides in a separate-account program dubbed Good Harbor U.S. Tactical Core, whose assets had slipped to less than $1.2 billion as of Sept. 30.

At the same time, Good Harbor's staff has shrunk by about 30% to 68 employees, according to an Oct. 14 note from Wells' Global Manager Research unit. The declining assets and headcount "have diminished the firm's ability to operate effectively going forward," the note concludes.

For years, Good Harbor's flagship vehicle delivered solid returns via a so-called tactical-allocation strategy that moves money into and out of exchange-traded equity

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Risk Specialists Cast Wary Eye on SEC Data

A statistical portrait of the hedge fund industry the **SEC** issued this month fails to provide a full picture of the risks fund operators pose to the financial system, according to risk-management professionals.

The Oct. 16 release represents the SEC's first attempt to aggregate private-fund data that managers report via Form PF, a Dodd-Frank Act creation that mandates disclosure of market exposures, leverage and liquidity in an effort to gauge systemic risk. Two data points in particular would appear to show the average hedge fund is well positioned to absorb another market shock.

Nearly three quarters of all hedge fund assets, on a net basis, could be liquidated within 30 days, according to the 40-page report, compiled by the SEC's Risk and Examinations Office. Meanwhile, only about a quarter of the industry's overall assets reside in vehicles that allow investors to withdraw as frequently as once every

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Cheyne Markets Commodity-Finance Vehicle

Cheyne Capital appears to be putting the finishing touches on a fund that would invest in trade-financing deals — a new strategy for the debt-focused fund shop.

A marketing document for the planned Cheyne Commodity Trade Finance Fund indicates the London firm wants to raise an initial $100 million for the offering. That would be sufficient to finance perhaps 20-30 transactions involving international shipments of metal, coal, grain and a few other types of commodities, while at the same time participating in a handful of larger deals by joining bank-led syndicates.

Cheyne is targeting returns of 4-5% over Libor, which could be leveraged up to 8-9%. For its efforts, the manager would pocket a 1% management fee, but wouldn't charge a performance fee.

Cheyne had planned to launch the Cayman Islands-domiciled vehicle in the third quarter. However, it hadn't been approved by the **Cayman Islands Monetary**

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Steve Cohen's family office, **Point72 Asset Management,** hired **Jay Cecil** this month as an analyst covering investments in healthcare-company stocks. It's unclear if Cecil has started yet at the Stamford, Conn., operation. He most recently held a similar position at global-macro manager **Caxton Associates.** Point72 has 850 employees, including more than 350 investment professionals.

Citadel has hired a portfolio manager specializing in industrial-company stocks. The recruit, **Kenn Tarantino,** had been working at **Balyasny Asset Management** since March. His arrival at Balyasny, meanwhile, came ahead of the shutdown of prior employer **Union Point Advisors.** He had been head of research

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Fund to Buy Slices of Marathon CLOs

Marathon Asset Management has launched a fund to buy equity pieces from its own collateralized loan obligations, so it can continue to issue those securitizations when new risk-retention rules kick in.

The new vehicle, Marathon CLO Equity Fund, would allow the firm to address a Dodd-Frank Act requirement that CLO issuers retain 5% stakes in their deals.

The rule takes effect Dec. 24, 2016. Although that's more than a year away, buyers of CLOs have put the word out that they want to see issuers position themselves to continue floating deals once the regulation is in force.

Marathon's fund launched with $200 million this month. That would be enough to take 5% slices from $4 billion of CLOs, suggesting the vehicle might also buy equity tranches of other managers' securitizations. Marathon has issued five CLOs totaling $2.4 billion since its post-crash return to that market in 2012. Its most recent was a $461 million issue in June.

The $12.5 billion Marathon isn't the first manager to set up a vehicle dedicated to fulfilling the risk-retention requirement. Earlier this year, for example, **Sound Point Capital** debuted a hedge fund whose sole purpose is to purchase the equity pieces of its own CLOs. Sound Point CLO Equity Fund was launched with $50 million from partners and $50 million from outside backers. The vehicle's first investment will be in a Sound Point CLO that's expected to price before April. ❖

Water Specialist Bars Entry to Fund

Summit Global Management, among the first investment firms to focus on the water industry, this month stopped admitting investors to its hedge fund following the death of founder **John Dickerson.**

As of Oct. 8, the Summit Global Management Water Equity Fund had $43 million of assets. Dickerson, who started the business in 1983, died Oct. 2 after a two-and-a-half-year battle with cancer.

The moratorium on subscriptions applies only to Summit Global's hedge fund. The San Diego firm runs $200 million overall, including separate accounts and private equity-type vehicles.

"The suspension of new clients may be temporary as [Summit Global] addresses structural and reporting items required by [Dickerson's] passing," a source said. Meanwhile, he added, the firm plans to launch an exchange-traded fund in the first quarter of next year.

Summit Global buys the stocks of companies tied in some way to the global potable-water sector, including utilities and equipment manufacturers. It also invests in water rights and hard assets.

Its hedge fund, which takes both long and short positions, is down more than 10% this year, according to **Bloomberg.** It has generated a five-year annualized return of 1.7%.

Dickerson had always pitched his strategy as a long-term play. Shortly before his death, he was interviewed by **The New York Times** about Summit Global's investment in **Cadiz,** which is trying to develop new sources of water in southern California. "It's a tough game," he said. "Cadiz has promoted the dream, and for years Wall Street has pumped optimistic paper water for Cadiz. But now the hard question for them is, Where is your real water and when can we drink it?"

Global Summit bills its hedge fund, launched in 1999, as the first investment fund formed for the specific purpose of trading the stocks of water-related businesses. Dickerson, who once worked for the **U.S. Central Intelligence Agency** as an economic analyst, began focusing on water in the late 1970s while serving as a director of a municipal water utility.

His son, **Matthew Dickerson,** is a managing director at Summit Global. The firm's investment team is led by portfolio managers **Paul Ang** and **Timothy Walsh.** ❖

Pelham Readies New Offering

Former **Lansdowne Partners** executive **Stephen Kirk** is set to launch a financial-stock fund next week.

Kirk left Lansdowne in 2014 with plans to start his own fund operation, **Campden Square Capital.** But he switched gears earlier this year, striking a deal with **Pelham Capital** founder **Ross Turner** to manage and market a vehicle with Pelham's support. Turner, who once worked with Kirk at Lansdowne, plans to make a substantial investment in Kirk's fund.

It's unclear how much Kirk will start out with, but he originally had expectations of launching Campden Square with $200 million.

Working from Pelham's home office in London, Kirk and his team will take long and short positions in financial-service companies globally, based on fundamental analysis — similar to the strategy he pursued as a partner at Lansdowne. His team includes analyst **Cyrus Sadiq** and operations chief **Richard Wild,** formerly of **Pensato Capital.**

Sadiq, too, originally planned to launch his own fund. After leaving **Visium Asset Management** in September 2013, he talked to prospective backers about a vehicle that would focus on companies involved in real estate finance. Prior to Visium, he managed a portfolio of mortgage derivatives at **Cedar Hill Capital** that largely contributed to a whopping 198% return in 2007 and a 96% gain in 2008. Sadiq earlier worked at **Goldman Sachs.**

Pelham, founded in 2007, runs about $4 billion overall, most of it in a diversified long/short equity fund. In early 2014, the firm sold a minority stake to Goldman's Petershill 2, a $1.2 billion private equity vehicle that buys stakes of 10-20% in hedge fund operators running $2 billion to $9 billion. ❖

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Discovery Executive Going Solo

An analyst at **Rob Citrone's Discovery Capital** is laying the groundwork for his own hedge fund.

Jasjit Rekhi, who researches stocks for the global-macro manager, is set to leave in the coming days. Details about his planned fund operation are sketchy, but he appears to have the backing of a large investor in Hong Kong.

Discovery's 44-member investment team primarily focuses on economic trends in emerging markets — a strategy that has delivered handsome profits over the years but lately has produced disappointing results. Discovery holds a large position in Chinese online retailer **Alibaba,** whose share price fell from more than $100 in late 2014 to less than $60 at the end of September. It has risen about 30% since then. But recent bets also include a short position in struggling mining company **Anglo American Shares,** whose stock is down sharply this year.

Two new investment professionals joined Discovery this month. **Bill Sharp,** previously of **Fortress Investment** and **Caxton Associates,** is working with a team that focuses on U.S. macro trends including **Federal Reserve** policy. **Ian Lieberman,** whose prior employers include **Goldman Sachs** and **Millennium Management,** is performing fundamental analysis with a focus on the technology sector.

Citrone, a protege of **Julian Robertson,** founded his Norwalk, Conn., firm in 1999. At yearend 2014, Discovery reported $31.6 billion of regulatory assets, including leverage. On a net basis, the firm runs around $13 billion. ❖

NewAlpha Eyes Play on Loan Funds

NewAlpha Asset Management wants to take equity stakes in marketplace lenders — with a focus on Europe-based operations that plan to support their efforts through in-house hedge funds.

Marketplace lenders typically originate personal or small-business loans online, and then pass on those accounts to outside buyers. But Paris-based NewAlpha sees an opportunity to back lenders that intend to keep some of those credits as investments for funds they would manage on their own.

NewAlpha, in turn, would market the resulting vehicles to its backers. Indeed, the effort comes partly in response to demand for marketplace-loan funds among the firm's own limited partners — including several large financial institutions in France.

The thought is that marketplace-loan funds can offer strong returns with low volatility, akin to fixed-income products.

The marketplace-lending industry has been booming, with hundreds of new originators cropping up to work with borrowers who were largely shunned by banks in the wake of the financial crisis. Just last week, London-based **FundingCircle** absorbed **Zencap** in a deal that positions it to begin operating in Germany, the Netherlands and Spain.

NewAlpha is looking at originators across continental Europe. It is placing an emphasis on France, where the industry is less developed.

The firm would finance its investments through a private equity fund it plans to launch by yearend. Expectations are that it will limit the vehicle's commitments to less than $75 million, and will deploy the capital to 15-20 emerging financial-technology companies.

In addition to marketplace lenders, those operations would include big-data shops, electronic-payment specialists and financial-information-system businesses, such as those that produce risk-analysis or portfolio-management technology. The investments would mark NewAlpha's first backing of operating companies, as opposed to fund managers.

NewAlpha has been one of the more active firms involved in investing seed and acceleration capital in hedge fund and long-only managers, with some $700 million under management. Chief executive **Antoine Rolland** was in New York earlier this month to meet with prospective recipients of that capital, amid plans to deploy up to $100 million to such deals by the end of March.

NewAlpha is 40% owned by **La Francaise** and 25% owned by **OFI Asset Management,** with the firm's management accounting for the rest of its ownership. ❖

Another Tough Quarter for Barnstar

Losses continue to pile up for **Barnstar Asset Management.**

The Aventura, Fla., special-situations shop's Barnstar Opportunities Fund arrived on Sept. 30 with a year-to-date loss of 35.1% — including a 13.2% decline for the third quarter.

Barnstar disclosed the results in a letter to investors last week, confirming that it has yet to stop a slide that has persisted for more than a year. The fund launched in May 2013 and went on to gain 8.4% that year, but mostly has gone downhill since.

In the letter, Barnstar founder **Charlie Fernandez** reiterated an earlier view that the firm was expecting improved performance among its main exposures — education company **ITT Educational Services,** bond insurer **MBIA** and mortgage servicer **Ocwen Financial.**

"A combination of investor fatigue in these names and overall market concerns have kept the share prices of these securities severely, and in our view unreasonably, depressed," he wrote, adding that he has seen fundamental improvement among the companies despite disappointing earnings.

Fernandez also pointed out that Barnstar Opportunities Fund gained 4% in August, even as the broader financial market tanked. He added that he expects strong returns going forward.

Barnstar launched with seed capital from **Stride Capital.** It had $50 million under management as of Feb. 25. ❖

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funds based on a range of factors including price momentum, economic trends and changes in the yield curve. But as assets in the program skyrocketed in 2012 and 2013, Good Harbor's increasingly large ETF trades started catching the attention of rival traders, who developed strategies in anticipation of the moves. That, in turn, prompted Good Harbor to adjust its trading tactics.

Following gains of 12.7% in 2011, 5.8% in 2012 and 24.6% in 2013, the U.S. Tactical Core vehicle lost 21.7% in 2014 and was down 3.2% during the first half of this year. Even then, its annualized return since 2003 was 9.5%.

Wells analyst **Aziz Khan** visited Good Harbor's Chicago offices in September, after which he changed his rating for the U.S. Tactical Core product from "supported" to "sell" — a recommendation distributed to the bank's 15,000 investment advisors.

"Discussion with the firm's executives left us concerned that, for this year, Good Harbor is forecasting additional significant outflows from the strategy, as well as a further reduction in the employee base," Khan wrote. "In addition, the firm is currently exploring options for additional liquidity and is not currently generating a profit, a circumstance that would be exacerbated by further asset outflows."

A source familiar with Good Harbor said the rating change virtually guarantees that more clients will head for the exits.

In a written statement, Good Harbor said the Wells report exaggerates the challenges it faces. "Good Harbor as a firm has regained a solid footing and already executed fund launches that address significant market opportunities," the statement said, apparently referring to several small mutual funds the firm has started. "We have a strong balance sheet . . . and we're optimistic about our growth trajectory for 2016 and beyond."

On Jan. 1, Good Harbor's management team formed a new company called **Cedar Capital** to provide marketing support and other services to Good Harbor, and to distribute other managers' products. One Cedar affiliate, **Broadmeadow Capital,** bought a majority of the assets of bankrupt **F-Squared Investments** in July. As of last month, Broadmeadow had about $100 million of discretionary assets. Cedar also recently purchased a stake in hedge fund shop **RiverNorth Capital.**

Good Harbor was founded in 2003 by **Neil Peplinski.** ❖

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Authority as of this week.

The financing of commodity sales — a subset of the global trade-finance market — traditionally was handled by the big European banks. But in the wake of the financial crisis, the banks' share of the commodity-trade sector slipped from an estimated 80% to about 50%, according to a January 2014 report by the **Bank for International Settlements.**

Cheyne co-founder **Stuart Fiertz** first signaled the firm's interest in developing a trade-financing business in an October 2014 interview with **Financial News.** "It's an area we've been looking at for a while," he told the **Dow Jones** outlet, "but it's taken the retreat of the banks to make the risk-reward profile attractive for us."

To run the fund, Fiertz tapped **Ludovico Manfredi** and **Philippe Ziegler** as co-portfolio managers. Manfredi has worked at Cheyne since 2000, handling both investment and marketing functions, and before that was chief executive of **Newfield Partners,** a commodity-trading operation that specialized in rice.

Ziegler is new to Cheyne, but has worked in the commodity trade-finance business since the early 1980s, including positions at **Swiss Bank Corp., ING** and **BNP Paribas.** During 13 years at BNP, he oversaw an energy- and commodity-financing operation with as much as $25 billion of assets. Most recently, he has been running a Geneva consulting firm called **Captiva Corporate Finance.**

Cheyne runs $5 billion to $6 billion overall, mostly in debt and real estate-focused funds. The firm was founded in 2000 by Fiertz and **Jonathan Lourie.** ❖

Towers Watson Circles 'Best Ideas'

Towers Watson Investment has set up a fund of funds that seeks to combine its underlying managers' most-promising investments.

The New York firm launched the Towers Watson Global Equity Focus Fund in August. It subsequently reported the vehicle to the **SEC** in a Sept. 25 update to its Form ADV filing, at which point the entity had $126 million under management.

The Ireland-domiciled fund invests with managers of long-only equity vehicles, earmarking the capital for their "best-ideas" portfolios. It doesn't take a performance fee, but does collect a management charge.

Towers Watson Investment was managing $3 billion of net assets on June 30. Its other products include funds of funds dubbed Towers Watson Alternative Credit Master Fund, Towers Watson Diversifying Strategies Master Fund and Towers Watson Hedge Advantage Master Fund.

Towers Watson Investment is a subset of a sprawling business whose activities include advising clients on risk, personnel and benefits. It also advises a mix of corporate pension systems, endowments, foundations, sovereign wealth funds, insurers and healthcare systems on some $30 billion of hedge fund investments. ❖

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30 days — suggesting the funds' liquidity terms are appropriately matched to the underlying assets.

A separate section of the report shows that hedge funds reduced their reliance on synthetic leverage during a two-year period ended Dec. 31, 2014. In the first quarter of 2013, the notional value of derivatives held by hedge funds amounted to 510% of their aggregate net asset value. Two years later, the measure had declined to 429%.

The **Managed Funds Association,** the leading trade group for U.S. hedge fund managers, seized on these statistics as evidence that the industry doesn't pose "a systemic or destabilizing threat, even during times of financial crisis."

The report "provides additional support for this position based on extensive industry data," MFA chief executive **Richard Baker** said last week.

But risk-management specialists cautioned against drawing easy conclusions from the SEC data. "Liquidity is more complicated than that," said **Samuel Won,** founder of **Global Risk Management,** a New York firm that advises hedge fund operators. "You really have to take into account the fact that under stressed markets, liquidity is very different. The most important thing for investors is, When do they get their cash in hand and at what price impact?"

Won and others were quick to point out that the statistical profile is heavily weighted toward equity funds, which account for more than a third of the industry's gross assets. While a major market disruption probably wouldn't prevent equity managers from exiting positions in an orderly fashion, the liquidity issues facing bond managers are far more complicated. Thus the data may fail to capture the full extent of the risks facing investors in credit-product funds.

Another shortcoming of the SEC report: Form PF allows managers to opt out of a series of stress-test questions — for example, the anticipated impact on a manager's portfolio if the stock market drops 20%, or credit spreads widen by 75 bp. The SEC allows filers to "omit a response to any market factor that you do not regularly consider in formal testing in connection with the fund's risk management." The SEC didn't disclose what percentage of hedge fund managers took advantage of the loophole.

"How are you going to examine systemic risk if respondents are checking off that box?" said one risk manager. ❖

Correction

An Oct. 21 article, "Demand Drops for Liquid-Alternative Funds," misspelled the last name of **Franklin Templeton** executive **Rick Frisbie,** who heads the Franklin Templeton Solutions unit. ❖

Inflows/Outflows by Strategy

	Flows Sept. ($Bil.)	Flows YTD ($Bil.)	Assets 9/30/15 ($Bil.)
All hedge funds	-$8.1	$72.1	$3,044.5
Fund type			
Equity	-0.8	17.0	1,016.4
Fixed income/credit	-2.0	4.3	982.0
Commodities	0.0	-1.0	66.5
Multi-asset	-5.4	54.5	1,036.4
Primary strategy			
Broad multi-strategy	0.2	50.3	472.7
Convertible arbitrage	-0.2	-2.8	51.8
Directional credit	-1.5	6.4	136.6
Distressed	-0.1	-2.7	244.9
Event driven	-1.3	-5.7	566.2
Long/short equity	-1.6	4.2	676.9
Macro	-4.0	8.2	164.4
Managed futures	1.0	14.3	131.8
Market neutral equity	0.2	1.6	54.1
MBS	0.4	1.3	97.6
Relative value credit	-1.0	-3.2	240.1

Source: eVestment

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Hedge Fund ALERT

5 Marine View Plaza, Suite 400
Hoboken NJ 07030-5795
201-659-1700
FAX: 201-659-4141

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Publisher

LATEST LAUNCHES

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
Towers Watson Global Equity Focus Fund Domicile: Ireland ✒See Page 5	David Shapiro Towers Watson Investment, London 44-02-07-170-2000	Fund of funds: long-only equity	Auditor: PricewaterhouseCoopers Administrator: BNY Mellon Fund Services	Aug.	$126
(Undetermined) ✒See Page 2	Stephen Kirk Pelham Capital, London	Equity: financials		Nov.	

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at that firm, which launched in July 2013. Tarantino is stationed in the San Francisco office of Chicago-based Citadel. He signed with the $25 billion firm in the past few weeks, and will start in early 2016.

Separately, **Citadel** has hired an in-house recruiter from **Balyasny Asset Management. Danielle Greenberg** started in Citadel's New York office this month as part of a team that evaluates candidates for one of the firm's equity desks. She held a similar role at Balyasny for the past three years. Earlier, she worked at **Goldman Sachs.**

James Kase will leave his post as **Capula Investment's** head of marketing at year-end. Kase's destination is unknown. He joined the London fixed-income shop in 2013 from **State Street Financial.**

CQS has added a business-development and investor-relations specialist to its New York office. The recruit, **Seth Weinstein,** arrived at the multi-strategy shop this month from Chicago-based **HFR Asset Management,** where he sold investable index products and risk-management services. London-based CQS, led by **Michael Hintze,** has $13 billion under management.

Executive-search firm **Ascendo Resources** has hired **Kate Quinn** as its head recruiter of front-office personnel for hedge fund managers, private equity firms and investment banks. Quinn started at the New York firm this month, and already is working to fill about 10 portfolio-management positions. She previously worked as a partner at **Boyden, CTPartners** and **Westwood Partners.**

Senior analyst **Matthew Barnett** left the research desk at New York equity shop **Jet Capital** in late September. Barnett's plans are unknown. He arrived at Jet in March, after three years covering special-situations and event-driven investments at **Bank of America** unit **Merrill Lynch.** Jet is seeking a researcher to fill his position. The New York firm manages about $1.4 billion, and isn't actively marketing its vehicles to investors at the moment.

Clearfield Capital of New York is seeking an analyst. The recruit would cover fundamental stock investments and possibly event-driven plays as well. Clearfield was founded in May by former **Kingdon Capital** executive **Philip Hilal.** It was managing $500 million as of July 1.

Analyst **Erik Mass** left **P. Schoenfeld Asset Management's** New York office last month. Word has it that Mass has moved to New Zealand, where he no longer plans to work in the hedge fund industry. He joined P. Schoenfeld in 2008 to cover real-estate-related investments in equity and debt products. His exit followed the departure of equity and distressed-debt analyst **Usman Waheed,** whose **Strycker View Capital** started trading on Oct. 1. That New York operation manages about $26 million, all for **Blackstone Senfina Advisors.** P. Schoenfeld was running $3.6 billion on Jan. 1.

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Telephone: 201-659-1700 **Fax:** 201-659-4141 **Email:** info@hspnews.com

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