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Opalesque Exclusive: Peak Partners to launch hybrid emerging markets FoFs next month

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Nikhil Jhangiani, the CIO of Geneva-based investment manager Peak Partners, told Opalesque of the imminent launch of a hybrid fund of funds (FoFs) called Granite Emerging Market Fund of Funds. It will be launched on 1st February with $10m from outside investors.

The fund wants to profit from opportunities in the emerging markets, which have lower debt to GDP than developed economies - hence the former's huge growth potential while the latter struggle to pay back their debt. Emerging market strategies tend to be more volatile than most, says Peak's presentation, but when you are able to contain drawdown, you can profit greatly from the "only growth opportunities currently available."

Indeed, according to an IMF forecast, the world's ten fastest economies (excluding those with less than 10m inhabitants and Iraq and Afghanistan) between 2011 and 2015 will only be emerging markets: China, India, Ethiopia, Mozambique, Tanzania, Vietnam, Congo, Ghana, Zambia and Nigeria. And finance academic Niall Ferguson reportedly said yesterday that emerging nations are overtaking the West to become the world's dominant economies in the biggest redistribution of wealth in 500 years. "We are living in a profound global shift," he said.

Peak's new FoFs will focus on dynamic top down allocation. It will be structured as a SIF, domiciled in Luxembourg, and have various currency classes. Its parameters will be to invest 35% to 65% in long-only funds and ETFs, and 35% to 65% in hedge fund platforms. The targeted return is 14% to 18% p.a., with a volatility of no more than 18%, and the fees will be 1.5% for management and 10% for performance with a high watermark.

The pro-forma annualised return of its USD class is 13.93% from Jan-2008 to Dec-2010, compared to the MSCI Emerging Markets Index's -2.59% and the HFRX Global Hedge Fund Index's -2.90%.

Peak Partners used to be part of Swiss FoHFs house Harcourt; it was founded in 2001 and now has 12 employees. The firm already has one FoFs, invested only in hedge fund managed accounts (on the HFR platform) and focused on the developed market: the Mont Blanc Dynamic Management fund, which returned around 7.67% in 2010.

Hybrid approach
Peak's new FoFs uses a forward looking macro model, very liquid underlying managers and allocates among many strategies and styles. The hybrid approach addresses the twin goals of liquidity and alternative investment style returns, says the presentation. Nikhil Jhangiani does not think the hybrid model will bring coordination problems: "It is not a hybrid in the conventional sense of the world in that it does not mix up illiquid and liquid instruments. Both sides of the fund, long-only/ETFs and hedge funds managed accounts, are very liquid. And everything we invest in is 'due diligenced.'"

The firm uses HFR for its platform of hedge fund managed accounts, which has investable indices as well as other investors like Peak Partners.

"Even though we believe in the merits of managed accounts, we don't want to have our own managed accounts platform because we do not want to be the only investor: we want to be commingled with other investors and be able to liquidate our investments without creating a conflict of interest," Mr. Jhangiani explained.

"Managed account platforms are in the process of commoditising hedge funds," he added, "and we use them for that purpose as well. We also like the risk management and transparency aspect."

Not everyone thinks that hedge fund managed accounts platforms are all that advantageous. Some say that the returns are often lower than that of hedge funds', they can be expensive, the universe of managers and strategies can be small, and the platform sponsor is a counterparty risk. However, the general appeal of managed accounts in general has undoubtedly been boosted since the credit crisis, as they offer much sought-after control over one's investments.

Within the Peak Partners FoFs, risk is controlled through VaR calculations, stress tests, and aggregate manager and portfolio risk exposure evaluations. There can also be investment in cash, and portfolio hedging through long put or short managed futures.

Top-down allocation best for FoFs
The fund's philosophy rests on the premise that FoFs performance increasingly comes from correct top-down macro allocation and not from bottom-up security selection. Most funds of hedge funds (FoHFs) and much academic research will agree with that. However FoHFs do not have the liquidity and the transparency to see where managers are positioned and cannot see their daily exposures, according to Mr. Jhangiani. Redeeming from an offshore hedge fund can be a long tortuous process, and FoHFs managers might miss opportunities because of that.

"With managed accounts, you can reposition your exposure 3 or 4 times a month, and this can be done in a day," he said. "This makes top-down allocation possible."

"For a FoFs manager, it is increasingly more important to be in the right style than being with the right manager."

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