Amundi ASSET MANAGEMENT

Amundi Alternative Investments

Advisory emphasis

Amundi Alternative Investments has moved away from offering off-the-shelf fund of hedge fund products to bespoke solutions in the absolute return space, seeing its future as being primarily in an advisory role with clients.

Franck Dargent, deputy chief executive officer and global head of business development, Amundi Alternative Investments

HEDGE FUNDS REVIEW: How would you characterise the landscape for hedge fund products, particularly fund-of-funds products, within Europe? What is changing?

Franck Dargent: The environment has been transitioning since 2008 in many different ways. It has been transitioning from investment into fund of hedge funds to single hedge fund investment; from offshore investment hedge funds into onshore fund of ones or segregated funds; it's been transitioning from private banks, large distributors to institutions. It has also been transitioning from off-the-shelf type products to tailor-made solutions. A lot of changes are happening and we want to be ahead of that.

HEDGE FUNDS REVIEW: What does that mean for a company like Amundi? How are you changing what you do?

Franck Dargent: We are changing what we do in so many different ways. We need to keep in mind what investors are expecting from hedge fund investments. They want to have a stable and sustainable return over time, they want to have it relatively uncorrelated to other asset classes and they want to be able to dampen the volatility of the overall portfolio. This is what we have to deliver. We have to stick to those expectations. That's the first point.

Then we have to do it in a very safe and secure way – in a totally different way to how it was done before the global financial crisis.

We took the decision at Amundi – a strategic decision – to move from offshore commingled hedge fund investments into onshore dedicated funds, which could be a combination of either managed accounts on our platform or stand-alone funds.

We have moved away from offering off-the-shelf fund-of-fund products to something that is much more of a dedicated solution, moving from an asset manager role to an advisory role.

On the regulatory environment, a lot is changing with the arrival of the Alternative Investment Fund Managers Directive (AIFMD). We are probably among the first asset managers in the hedge fund industry to be up and running for the directive. We welcome the arrival of that directive and we think it will help to fix a lot of issues in terms of making sure you have equal treatment among shareholders.

HEDGE FUNDS REVIEW: Why is it important for institutional investors in Europe to have onshore regulated structures?

Franck Dargent: Either you do it the old way and invest into offshore commingled hedge funds. A lot of investors are still happy with this but you are basically blended with other investors who sometimes have side agreements with the hedge fund. There was a proxy way of handling those risks – to invest in the Ucits space. It brings a level of comfort that investors are expecting, but it also comes with a lot of constraints in terms of concentration risk and in terms of the type of assets you can deal with. We are expecting the AIF products to become some kind of label in a complementary way to the Ucits label, offering the same level of safety as the Ucits label is offering, but with the flexibility and agility of a typical hedge fund in the offshore space to run the strategy.

HEDGE FUNDS REVIEW: How do you see advisory functions developing and changing over the next year or so? How are you changing what you do?

Franck Dargent: We believe it will be more and more prominent. Basically, the driver is that a lot of institutions are currently reviewing the way they allocate. We are moving from a world in which alternative investments were a small pocket within a big portfolio – anywhere between 5% and 10%.

The traditional allocation has been evenly split between bonds and equities with a small pocket for alternatives. Then, during the crisis, pension funds realised that actually 90% of their risk was coming from that 60% equity allocation. They also feel very uncomfortable with the level of volatility of equities. At the same time, the yields are around 1%. People have been reminded that there is actually sovereign risk, and it is not something that can be overlooked. Now the level of yield is probably not paying for risk, even for credit risk.

A lot of institutions are questioning not only their alternative buckets, but how they can review the whole model and have a much more risk-driven approach to the way they allocate within their portfolios. We see a lot of advanced institutions transitioning from satellite allocation to spreading hedge fund investments over the portfolio. It could be through a single hedge fund investment, but it also could be through fund of funds that would basically deliver a different set of return and risk.

HEDGE FUNDS REVIEW: How does Amundi cope with the different needs, different risk structures of the various institutions?

Franck Dargent: The only constraints we impose universally across the portfolios is that everything is invested into a European-domiciled and preferably into an Irish-domiciled fund. Obviously the managers can be American, European or Asian. The other constraint is being able to consolidate the overall positions within our risk system because we want to be able to provide an aggregated view of the risk to the investor.

Then we customise everything. We have a team with a dedicated portfolio manager, a dedicated team of analysts, client services and legal personnel. Sometimes it could be: "build something new for me; this is my portfolio and it has to provide that set of return". Sometimes, "this is my hedge fund allocation. What do you think about it? Knowing that I have traditional long-only portfolio, which looks that way?" You need to be able to step back from being strictly a hedge fund allocator and become an adviser, be able to run a lot of quants and models and make qualitative assumptions as to how you can optimise the overall asset allocation.

HEDGE FUNDS REVIEW: One thing institutional investors want to see are lower fees. How do you keep your own fees low?

Franck Dargent: We've been extremely aggressive on the issue of fees. At the managed account level, our fee level is the same fee level as the benchmark fund except when we improve the liquidity on our platform. Then we will add on 15 basis points. It is extremely aggressive. Then, at the fund of fund level, anything that is above 50bp for a size of $50 million, for example, and 10% performance fees is too expensive. That gives you some idea of where we are.

HEDGE FUNDS REVIEW: Are high-net-worth (HNW) individuals looking at something different?

Franck Dargent: For HNW individuals, it's a question of wealth. You have very HNW individuals who behave like institutions; they work in a very complex environment. Then we will offer a bespoke approach. For the typical HNW individual with a much smaller size to invest, we completely reshuffled our open-end fund of funds offer. We will be offering three absolute return fund of funds covering the whole spectrum of risk return from a product, which will target to deliver Libor plus 4% over five years with a volatility of 3%: a very stable type of a risk/return profile. Then a medium-range product and something that will be more aggressive with a 10% return and 8% volatility target.

HEDGE FUNDS REVIEW: Looking at your role within the European hedge fund world, how do you see Amundi developing and meeting the challenges of a changing environment?

Franck Dargent: In Europe, you basically still have a very active pool of investments, which is based in the pension funds industry, in the UK, Benelux and Scandinavia. These investors have basically taken the route of directly investing into single hedge funds, sometimes using consultants to help them do so.

However, they have probably overlooked the fact that it may not be the cheapest approach for investment. We still believe fund of funds have a lot to offer, not only because they can negotiate rebates with hedge funds. They provide access. They provide simplicity.

When you invest in single hedge funds, then you go through a lot of complexity. You need to take into account a lot of different liquidity terms and redemption terms. There is a lot of legal and operational work involved. There are a lot of indirect and hidden costs that are usually ignored.

We need to reposition what a fund of funds can offer. We especially need to demonstrate how credible we can be in offering tailor-made solutions, not only as a pure alternative product provider, but as someone able to look at the overall portfolio and find the solution that will best fit the overall asset allocation.

HEDGE FUNDS REVIEW: Do you see a good future for Amundi and for the asset management business?

Franck Dargent: Yes. We are convinced the more that environment drags on, the more institutional investors will come to us, will come to absolute return managers, solutions providers and firms that are able to demonstrate that they are bringing real value in terms of advice. We see that trend developing. So, we are very optimistic about that.

To view the full recorded proceedings of the Q&A, visit: *www.risk.net/2273690*