Advantageous positioning

Sylvie Dehove, head of investment strategy and portfolio management at Amundi Alternative Investments, talks about the implications of the introduction of European Union regulations on the hedge fund industry and how Amundi is positioning itself in relation to the changes

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HEDGE FUNDS REVIEW: Is the introduction of the Alternative Investment Fund Managers Directive (AIFMD) going to be a challenge or will it bring opportunities to hedge funds?
Sylvie Dehove: We expect it to generate a lot of opportunity for us. An optimistic person is definitely someone that sees opportunity, even amid difficulties. We wanted to be optimists as far as the AIFMD is concerned, mainly because it brings a lot of flexibility in terms of investment guidelines, and fewer constraints in terms of leverage concentration and short selling.

At the same time, through the operational set-up there will be extra layers of protection. The combination of the two will definitely bring opportunities because, as a portfolio manager, I will be able to focus on financial risk. It is definitely an opportunity.

HEDGE FUNDS REVIEW: How has Amundi been changing in light of AIFMD? How are you changing the way you advise clients and construct portfolios for them following the introduction of the directive?
Sylvie Dehove: I do not think that the AIFMD will change things. It's a European framework, it's just creating the environment in which we will invest. The way I manage a portfolio is a combination of discretionary style, and non-discretionary – a model I'm using in order to challenge my expectations and my views. AIFMD will not change the way I manage.

What has definitely changed is that the extra layer of protection it has brought to the alternative investment fund (AIF) product allows me to be more concentrated. This means I can have high conviction positions with skilled managers and within portfolios.

We were pretty much diversified at the fund of funds level. Now, the AIFMD allows us to go up to a 7% or 10% concentration, depending on the mandate and if the client is fine with that. It definitely allows us to be more focused on our convictions.

HEDGE FUNDS REVIEW: Do you think the directive is going to encourage European investors to start putting more money into alternatives, and specifically hedge funds?
Sylvie Dehove: We have seen a lot of demand from clients, especially continental European institutions. They are asking for a more regulated, transparent vehicle, pretty much in line with the move to more regulatory requirements under Basel III, Solvency II, and so on. In Europe, for sure, that can make a difference.

Prior to that, alternatives were not part of the core portfolios of European institutions. It was not something that you would say to your respective boards – to invest in hedge funds. It was something pretty insignificant at the back of your portfolio.

The AIFMD will definitely allow European institutions to say clearly to their boards that they want to invest in these vehicles for their core portfolios – because now they are secured, transparent and regulated. So we expect a lot of flows from that side.

For our Asian clients, if we see a parallel between the fantastic success of Ucits and the expected success of the AIFMD brand, we expect that to be a new way to invest for them. Let's say Ucits for long-only traditional investments and AIF products for alternatives.

HEDGE FUNDS REVIEW: How long do you think it is going to take to establish the brand?
Sylvie Dehove: It will be highly dependent on the appetite of hedge fund managers to create products under the AIFMD. It will depend on the regulators and how flexible they will be with licensing, and so on. At the very beginning that could be a bit slow, a bit tepid. But I expect managed accounts platform providers, in the short term, to help AIFMD to come into favour. We have had a lot of discussions about that with our own hedge fund managers; they want to bring funds onto the platform. The trend is for the AIF.

If we take Ucits as a model, it could take two years for a doubling of the assets. Then we will see.

HEDGE FUNDS REVIEW: Amundi runs a large managed account platform. Do you see that growing? Do you think there will be more or less demand for managed accounts because of the AIFMD?
Sylvie Dehove: Historically, managed account platforms were a way of providing liquidity for hedge funds. I think what will be key is definitely the fact that most managed account providers wish to become AIF-compliant very quickly. The fact that those providers are mainly European, and are therefore already part of the discussions about the AIFMD, will help.

I expect managed account platforms to help the AIF brand to expand and to ease the learning curve for US managers and non-European hedge fund managers in general. It may help them to launch passportable funds before 2018 [when private placement may end with the introduction of a passport for third country funds]. In the short term, definitely, managed accounts will be AIFMD-compliant and will be an easier way for managers to distribute products.

In the medium term, as a portfolio manager, I tend to use managed account liquidity, especially weekly ones, for specific bets. It's complementary to my main or core allocations. With weekly liquidity, for a risk-off environment, managed accounts work well. For a risk-on environment, when you want to take directionality, you're seeking a lot of yield, then you tend to try to capture the liquidity premiums. Then it doesn't matter if you have monthly liquidity. That is sufficient.

In the medium term, I think managed accounts providing weekly liquidity will probably be depressed, but monthly separate accounts will probably keep on attracting money, especially if those providers tend to have fewer sell-side platforms, but many more buy-side platforms focusing on big names and skilled managers, within a European vehicle, providing a double-digit – or at least very attractive – risk return profile.

HEDGE FUNDS REVIEW: If you have the managed account platform, and it is AIFMD-compliant, what does that bring to the party? Does that give an investor anything extra?
Sylvie Dehove: It's total security because on one side you have the protection given by the platform, due diligence, operational due diligence, and so on, and you have the extra protection provided by an operational set-up thanks to the AIFMD. The mix, the combination of the two is like a super protection wrapper. That's the reason why managed account providers want to be AIFMD-compliant as soon as possible

HEDGE FUNDS REVIEW: How do you see your role in helping clients put together portfolios and strategies that go beyond just equity long/short into a more diversified, broader strategy mix?
Sylvie Dehove: Amundi Alternative Investments has been managing fund of funds for more than 20 years. We manage close to $7 billion, mainly through client mandates. We're very familiar with strategic asset allocation. Through AIFMD, I will advise my clients pretty much the same way in terms of strategy because AIF, compared to Ucits, allows us to have all the alternative strategies, including distressed, available for our clients.

The top-down approach will not change. We will continue strategic asset allocation. We will challenge our discretionary view with more tools that we have developed internally, a correlation metric.

For me, the main difference AIFMD will bring is that the AIF is definitely a secured, transparent and regulated wrapper for products. It will allow me to concentrate more on my main bets and my main convictions.

I do think that the alpha differentiation could come from higher conviction bets or discretionary investments – as opposed more diversified fund of funds.

HEDGE FUNDS REVIEW: With regard to investors wanting to see a good risk return profile, do you think the directive is going to be helping hedge funds to product that kind of performance, or is it going to be immaterial?
Sylvie Dehove: Again, for me, it's definitely the framework. Will that change the performance? I don't think so. The hedge fund manager is definitely an alpha generator and that is reflected in the performance, as well as in beta production. The main reason we select managers is for alpha generation.

Being part of an AIFMD or a Cayman Islands/Bermuda structure will not change anything for the hedge fund manager. It is still a way to generate performance, but within a framework that will comfort investors, especially European ones, and allow them to bring these funds into their core portfolios. So we expect flows to come into the industry.

HEDGE FUNDS REVIEW: With the introduction of the directive, do you think European investment into hedge funds is going to significantly change? Will we see a trend to more investment into these vehicles and, as a consequence, Amundi's own assets significantly rise?
Sylvie Dehove: We expect to have significant inflows linked to AIFMD. We had a lot of discussion with our clients; we explained to them about the AIFMD. I anticipate [these clients] to be able to invest through AIFMD vehicles.

We also expect some new trends. It will be a matter of how providers of these funds discipline themselves in order to operate within the European framework.

More formal regulation is the current trend and that will bring more responsibility within our industry. Yes, I expect that to be a great opportunity.

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