NOVEMBER 2022

The Hedge

A look back at the month's news, views and a little more

Performance
Private Equity
Hedge Funds
Activism
Crypto
ESG
Regulatory updates

With the world going mad & bad, we turn to art & cars...

This month we head further afield in the world of alternatives to high end art and classic cars. We feature a Q&A with one of the foremost art consultants in the global market, Francis Outred (pg 10); and hear from the leading dealer in classic cars, Gregor Fisken (pg 12)

A Brodie Consulting publication in conjunction with RQC Group and Capricorn Fund Managers.

HEDGE FUNDS BOUNCE BACK IN OCTOBER

October was a good month for hedge funds as Western equity markets roared back and almost all sectors closed the month in positive territory. By the end of the month, the **HFRI Fund Weighted Composite Index** was up 2.0%, improving the year-to-date figure, which is still down 4.5%. For our October market review visit this link.

The **HFRI Equity Hedge (Total) Index** was up almost 3.0% for the month, with the strongest sub-sector performance coming from the **Quantitative Directional** managers, up 4.3%. **Healthcare** bounced back up 3.5%, although it is still down 14.9% for the year. The one negative number in the equity sector was **Equity Market Neutral**, which was down 1.0%.

Event Driven also bounced back as managers profited from equity markets, with the **HFRI Event Driven (Total) Index** up 3.7%. **Activists**, which have had a torrid time for so long during this year, was the stand-out sub-sector, with a very strong 7.1% return for the month. **Special Situations** was also up 4.0%, followed by **Multi-Strategy** up 3.5%.

Macro had another good month, although unsurprisingly lagged the more equity focused managers. At the end of the month the **HFRI Macro (Total) Index** was up 1.0%, taking the year's gain to 11.5%. The stand-out was yet again the **Commodity** managers, with the sub-sector up 2.3%, a good result with energy prices below recent highs.

Relative Value was the one drag on the space during October, down 0.3%. The worst performing sub-sector was **Yield Alternatives**, down 1.9%, while the best was **Fixed Income Sovereign Index** up 2.3%.

With more tailwinds in October, **Fund of Funds** had a good month, up 1.5%, with the **High Volatility Index** (higher risk) up 3.1% and **Low Volatility Index** up 1.4%.

Turning to regional performances and **China** again stands-out, with the index down 3.3%, as investors looked to exit the market as President Xi further tightened his grip on power and lock-downs continue. On the other side, the best performing was **LatAM**, up 3.6%, followed by **North America**, up 3.2%, while **Europe** was marginally positive, up 0.1%.

193%

Odey European performance through to end September.

Source: Bloomberg

40%

Pentwater Capital reported gains on Twitter.

Source: Reuters

BIG NAMES STRIKE GOLD

As investors search for more diversified returns, we are seeing an increasingly energetic fund-raising environment in private equity, particularly among the biggest names and more thematic funds, including infrastructure. **KKR** is just one brand name to raise a sizeable fund, having hit $6 billion at first close for its second Asia Pacific infrastructure fund. This is according to **Reuters** and impressively is only seven months after launch; it also follows the deployment of almost all of its first $3.9 billion infrastructure fund. Another infrastructure fund to have announced first close is **BlackRock's**, which has raised $4.5 billion and is on target to hit $7.5 billion to invest in five sectors: energy, lower carbon power, transport and logistics, regulated utilities and digital infrastructure.

EUROPEAN ATTRACTIONS

Speaking to **Bloomberg TV**, **KKR's** co-head of European Private Equity, ***Philipp Freise***, has said that Europe has rarely looked more attractive.

He plays up the role of private equity in Europe and the regional opportunities, given lower valuations and state of the market. The energy transition and demographic shift are two secular shifts that KKR is investing in, through healthcare and technology. He adds that private equity today is helping companies solve problems, rather than just buying companies, and benefiting from KKR's global platform.

With public capital harder to raise, and more expensive, Freise believes that going forward private equity has a far larger role to play.

US FALLEN STARS

The **Financial Times** writes that private equity is circling US 'fallen stars.' Of particular interest are those companies to have listed in the past four years that have experienced dramatic valuation falls and remain *'deeply underwater.'*

Names mentioned include the likes of **Robinhood** and **Lyft**, down 70% and 85% since their respective IPOs. Crunching the **Dealogic** data, the paper finds that of the 400 US companies to have listed between 2019 and 2021, 76% are below their IPO price.

According to **Preqin**, private equity funds have approx. $500 billion dry powder, with **KKR** alone sitting on $115 billion.

Year-to-date the M&A market remains anaemic when compared with last year's highs, with the third quarter activity down almost 50% on the same period last year.

GATED PROPERTIES

Whether this is the canary in the coal mine remains to be seen, but UK real estate funds have started a fire-sale of assets and a handful have put up gates.

This comes as funds face a flood of redemptions, particularly from pension funds, largely post ***Kwarteng's*** 'mini-budget.'

The **Financial Times** reports that **Schroders, CBRE, L&G, M&G** and **Abrdn** are marketing *'at least 18 commercial assets'* priced at around $1 billion, which is higher than normal; while **L&G** and **M&G** have extended redemption terms on funds.

One manager said they were acting in response to *"exceptional market conditions."*

INDUSTRY EVENTS

14-16 November 2022
SALT Iconnections Asia

15-18 November 2022
SuperInvestor (LP/GP relations) Amsterdam

15-17 November 2022
Fund Operator Summit Europe

Click here to see upcoming events

NEWS (CONT.)

FREEING THE BIRD

While not strictly a private equity story, a good financing and maybe a turnaround story is **Twitter**.

The world is watching to see where ***Elon Musk*** is going take the social media platform, having *'freed the bird'* as he put it. As always, looking to spoil a good party, the EU was quick to remind him that the *'bird will fly by EU rules.'* While **Mashable** told its readers that this is a bird shackled to a pretty big investing consortium!

The speed at which Musk successfully pulled together the financing for this enforced transaction in the first instance was hugely impressive and he is clearly in a hurry to transform the company. Whether this will work remains to be seen, with big advertisers reserving judgement on the platform's direction. Musk certainly started as he means to continue, illustrated as only he could by arriving with the kitchen sink, and immediately fired a large number of the C-suite, including the CEO, followed by a sizeable chunk of the global workforce. Even in the world of private equity this would be seen as being particularly aggressive and because it is being played out live via social media channels (#oneteam) has created a communications nightmare - to be fair, he fired this team as well. Musk however has a pretty good track record... so let's see if a leaner platform, with a new blue tick subscription service really can work.

Of the $44 billion it cost him, $5.2 billion was sourced from large funds, such as ***Larry Ellison***, who was in for a $1 billion, as well as **Qatar Holdings** and Saudi Arabia's ***Prince Alwaleed bin Tadal*** who transferred shares to Musk. Musk personally put up $27 billion. The rest of the funding included loans from **Morgan Stanley,** which was down for $3.5 billion, **Bank of America, Mitsubishi UFJ Financial Group, Mizuho, Barclays, SocGen** and **BNP**.

Twitter has been a profitable short-term trade for various funds now that the deal has successfully closed. Names include the likes of **DE Shaw, Millennium Management** and **Greenlight Capital**, with **Pentwater Capital**, a Florida based fund, possibly reaping the largest gains, with a 40% return, writes **Reuters**.

KKR JV WITH MUBADALA

There is an interesting new joint venture between **KKR** and **Mubadala**, the Abu Dhabi sovereign wealth fund. This sees the pair co-investing across private credit opportunities in the APAC region, with Mubadala deploying capital alongside KKR's, which also includes KKR's recently launched $1.1 billion **Asia Credit Opportunities Fund**. For Mubadala, this partnership provides high level exposure to APAC credit and adds further financial clout to KKR.

According to **Preqin**, the APAC private credit market is set to expand from $78 billion in 2021 to $116 billion in 2027.

NO SOFTENING THE PAIN

After so many years of blistering returns, bad news tends to follow bad news at **SoftBank** nowadays, as it took a £450 million hit from its investment in **THG**, the UK e-commerce retailer.

SoftBank is exiting the position, which it took in 2021 to help THG expand its technology platform. This is being sold to the **Qatar Investment Authority** and back to ***Matthew Moulding***, THG's founder. At the time of THG's initial investment, the investment was worth £480 million, but was sold for £31.4 million.

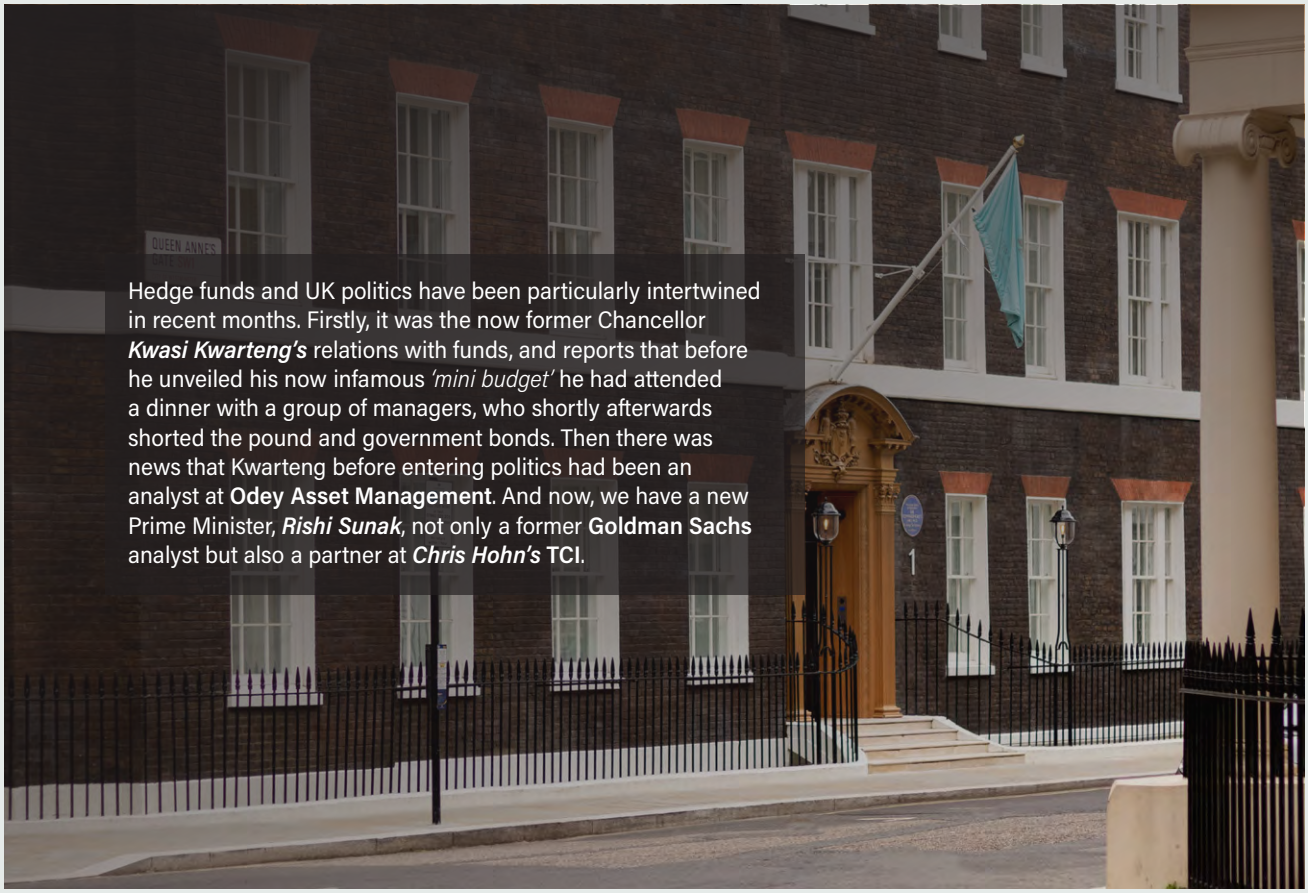
Investors will be watching SoftBank's Q2 FY2022 earnings closely on 11 November.

SHORT PROFITS

One of the hardest skills in active management is shorting shares, with only a few truly short funds in the market and most long/ short funds invariably net long.

Yet shorting is once more proving highly lucrative, and arguably easier given some of the short-term trends these markets are creating. These have included selling China stocks and US tech. Looking at **S3 Partners** data, **Bloomberg** reports that when China aggressively sold-off on 24 and 25 October, traders' profited to the tune of $4.4 billion MTD mark-to-market profits. **FAANG** stocks likewise have proved lucrative (on the downside) for managers in recent weeks as results disappointed and the lockdown premium disappeared, particularly Meta Platform and Amazon. Funds have also been successfully been shorting **Tesla**, which for so long was a pain trade that burnt multiple managers as the shares soared. But it is now proving highly profitable given the increased competition in the space and a belief that ***Musk's*** eye may be off the ball given his hands-on role at **Twitter**.

NEWS (CONT.)



Hedge funds and UK politics have been particularly intertwined in recent months. Firstly, it was the now former Chancellor ***Kwasi Kwarteng's*** relations with funds, and reports that before he unveiled his now infamous *'mini budget'* he had attended a dinner with a group of managers, who shortly afterwards shorted the pound and government bonds. Then there was news that Kwarteng before entering politics had been an analyst at **Odey Asset Management**. And now, we have a new Prime Minister, ***Rishi Sunak***, not only a former **Goldman Sachs** analyst but also a partner at ***Chris Hohn's*** **TCI**.

FUND REDEMPTIONS

According to a recently released **eVestment** report, the hedge fund sector has been suffering particularly high fund redemptions in recent months, with $21 billion leaving the space in September. Overall assets declined to $3.4 trillion, down $75 billion on flows and performance. This was the fourth consecutive month to see outflows, with macro, long/ short equity and multi-strategy funds all seeing the highest redemptions. Managed futures were however a brighter spot, with $300 million of net inflows during the month.

FUNDS TURN TO ENGINEERS

Hedge funds are increasingly looking beyond finance degrees as they develop their businesses, with a greater focus on hiring scientists and programmers/ software engineers over traditional finance. The likes of **Citadel** and the big banks have long made this move, but the bulk of hedge funds have often been behind this curve.

Speaking to various head-hunters, this has really started to change over the past few years and is likely to accelerate as managers develop more complex strategies and engineers increasingly look beyond Silicon Valley. A good example is **Millennium Management,** which is looking to hire more than 100 engineers and developers. While over at **Bridgewater Associates**, former **Goldman Sachs** Managing Director and Global Head of Loans Engineering, ***Yuriy Podoshev***, has joined as its new engineering director.

CHANOS GOES DAILY

There is an interesting new fund being launched by **Kynikos'** ***Jim Chanos***. Never afraid to swim against the tide, Chanos is arguably the best known short-seller in the market and is now, according to **Bloomberg**, launching a daily liquid fund. The fund is focusing on *'overvaluation wherever the market excesses are,'* says Chanos. For this venture, he has teamed up with London based **Green Ash Partners** and has already started trading with $20 million of internal capital.

FIRST FEMALE $1BN HEDGE FUND

Going against what has been for all too long a male dominated tide, we are delighted to see former **Viking Global** portfolio manager ***Divya Nettimi*** launch a $1 billion fund, **Avala Global**. This is the largest to be launched by a woman (and clearly the first billion dollar fund in this space) and is hopefully an indicator of more to come. Next year, according to reports, ***Mala Gaonkar*** is expected to launch a similar sized fund, **SurgoCap Partners**. Nettimi's fund is a long/ short technology, consumer, media and telecoms fund and has already started investing. This comes at a time when big launches are relatively rare, with **HedgeWeek** reporting that **Braidwell** has been the biggest launch year-to-date with $3.5 billion.

Money Maze Podcast

Est. 2020

With Simon Brewer

BRITISH PODCAST AWARDS

In October the award-winning Money Maze Podcast welcomed a range of interviewees from the finance sector and beyond.

We were delighted to be joined by ***Peter Oppenheimer***, Chief Global Equity Strategist at **Goldman Sachs**. He shared some wonderful insight on the macroeconomic environment, suggesting that the current economic downturn is unlikely to be as severe as many fear. He also covered opportunities in fixed income, why active equity managers are likely to prosper in this environment, the commodity supercycle and how long-term policies have contributed to the current inflation surge.

To explore the recent gilt volatility and broader bond market rout we also spoke with ***Greg Peters***, Co-CIO of **PGIM Fixed Income**. He shared his thoughts on the world of bonds and his view on the decline of the 60/40 model. Greg also explained why the Fed may remain more hawkish than the consensus view and how active fixed income management can achieve more consistent outperformance relative to the world of equity management.

In October, we were particularly pleased to highlight the excellent work of **The Felix Project**, featuring an interview with the charity's founder, ***Justin Byam Shaw***. Justin set up the charity in 2016 and works to distribute surplus food from the retail and hospitality sectors to frontline charities, primary schools and holiday programmes, helping to tackle both food waste and food poverty. The Felix Project currently works with 539 suppliers and almost 1,000 charities, primary schools and holiday programmes. In Justin's episode on the podcast, he explains why he set up the organisation, before describing the worsening food poverty crisis in the UK. For further information visit www.thefelixproject.org. Justin is also Chair of **ESI Media** (which owns **The Independent** and **The Evening Standard**).

Established in 2020 by two finance industry veterans (***Simon Brewer*** and ***Will Campion***), the Money Maze Podcast features interviews with some of the biggest names in business and finance. Through direct, entertaining and insightful interviews with masters of the real life money maze, it aims to help listeners learn about the different approaches to allocating capital and to better navigate the pitfalls that line the path to prosperity. The podcast has won numerous industry awards and reaches over 2 million people per year, with lots more interesting episodes planned for this autumn!

To listen, simply search **'Money Maze Podcast'** on your preferred podcast app or on YouTube. You can also find out more and listen to the full podcast archive at www.moneymazepodcast.com.

NEWS (CONT.)

MILLENNIUM BACKED

At a time when fund launches are being pulled, it is very encouraging to see that there are still billion dollar launches, beyond just ***Divya Nettimi's***. According to **Bloomberg, Millennium Management** has backed a new fund launch, managed by ***Andrew Kommery***, formely MD in **DE Shaw's** fundamental equities group, and ***Alex Chacon***, ex **Point72**. This fund is set to launch next year with *'several billion dollars'* if the report is to be believed.

ODEY CLOSES FUNDS TO NEW SUBS

Odey Asset Management has been rarely out of the news in recent months, with a constant stream of stories to come out of the Upper Brook Street firm on ***Crispin Odey's*** connections and profits from shorting sterling and UK government bonds.

Whatever anybody says, this has been a banner year for Odey, with **Odey European** up 193% through to end of September. They have now soft closed three funds to new subscriptions: **Odey European, OEI Mac** and **Odey Swan**. Speaking to **The Times**, Odey said that *'he did not believe new investors to the portfolios "were going to get a very good deal,"' so the funds have closed to "not compromise our ability to maintain the strategy's risk/ reward profile."*

STICKY MONEY

A further **Millennium** story, which is covered in **HedgeWeek**, is the news that ***Izzy Englander's*** firm is set to return another $15 billion to investors. This comes as the firm seeks to further lock-up investors and is part of a growing trend among the larger *'big brand'* funds to retain sticky money.

Millennium is already recognised as one of the industry's *'stickiest'* managers, with the share class that is being liquidated currently offering redemptions over one year. This also follows $15 billion returned last year. Investors now have the option of moving into a share class that can be redeemed over five years...

MAN GROUP SEES ASSETS DROP

In its third quarter results to 30 September, **Man Group** reported a 2.7% drop in assets, which it described as a *"very difficult quarter for the asset management industry."*

Looking at performance, the absolute return funds had a *'strong'* quarter and all bar credit in this segment have had a good year-to-date, with **AHL Diversified** the best performer, up 23.2%, followed by AHL Alpha, up 15.3%.

The long only funds were a different story, with **GLG Continental Europe** down 27.2% and **Numeric** systematic long only funds down between 19.7% and 26.5% for the year, with **Numeric Emerging Markets Core** falling 11.8% during the quarter.

Turning to assets, the **Absolute Return** funds actually saw a small drop, down 0.6%, but **Systematic** long only assets fell by 8.5% and **Discretionary** long-only 14.5%; while **Multi-Manager** Solutions had a very strong quarter, with a 21.5% increase.

The numbers were not helped by the drag of the strong USD. Man's shares fell 3% on the day and at time of writing are down around 5% for the year.

RISE OF THE MULTI-STRATEGY FUNDS

There is interesting article by ***Robin Wigglesworth,*** **Financial Times,** on the demise of fund of funds and the rise of multi-strategy hedge funds. In it, he looks at the relative size of the sectors, with multi-strategy now standing at $890 billion, which is comfortably larger than fund of funds.

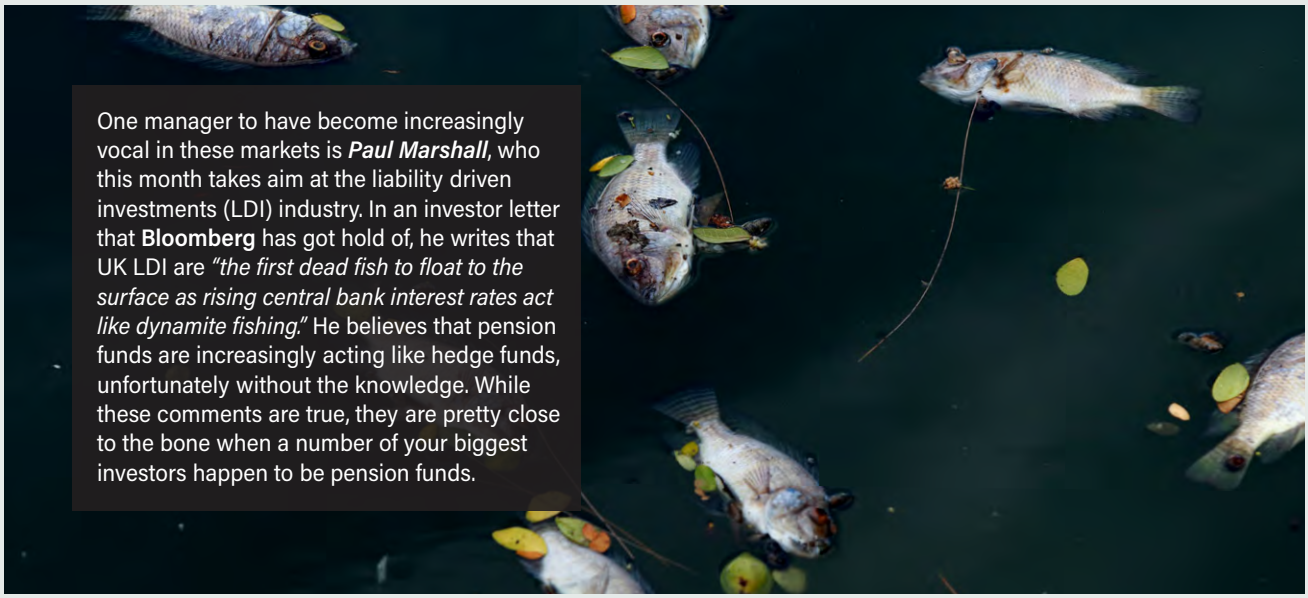
These multi-strategy funds, which include the likes of **Millennium, Citadel** and **Point72**, are he describes *'souped up, better version of old school fund of funds.'* Wigglesworth points out that this year multi-strategy funds have been outperforming, second only to quant that have had a stellar year thanks to big performances from trend followers.

From our perspective, we like multi-strategy on account of their flexibility and the ability to launch and close fund sleeves according to market environment and track record. But this is also what plenty of large funds, who are not labelled multi-strategy, have been doing for years.

One of the problems was bucketing multi-strategy from an allocators point of view – it is not long/ short equity, it is not commodity or macro – but now it appears, given the numbers this year and the growth in assets by these managers, it has its own bucket and will go on to thrive. You have even seen **Eisler Capital** in recent weeks shelve more focused funds to focus on its multi-strategy funds.

As Wigglesworth writes, *"there are few major institutional investors in the world that wouldn't kill for a fatter allocation to the flagship funds of Citadel or Millennium."*

NEWS (CONT.)



One manager to have become increasingly vocal in these markets is ***Paul Marshall***, who this month takes aim at the liability driven investments (LDI) industry. In an investor letter that **Bloomberg** has got hold of, he writes that UK LDI are *"the first dead fish to float to the surface as rising central bank interest rates act like dynamite fishing."* He believes that pension funds are increasingly acting like hedge funds, unfortunately without the knowledge. While these comments are true, they are pretty close to the bone when a number of your biggest investors happen to be pension funds.

ACTIVISTS

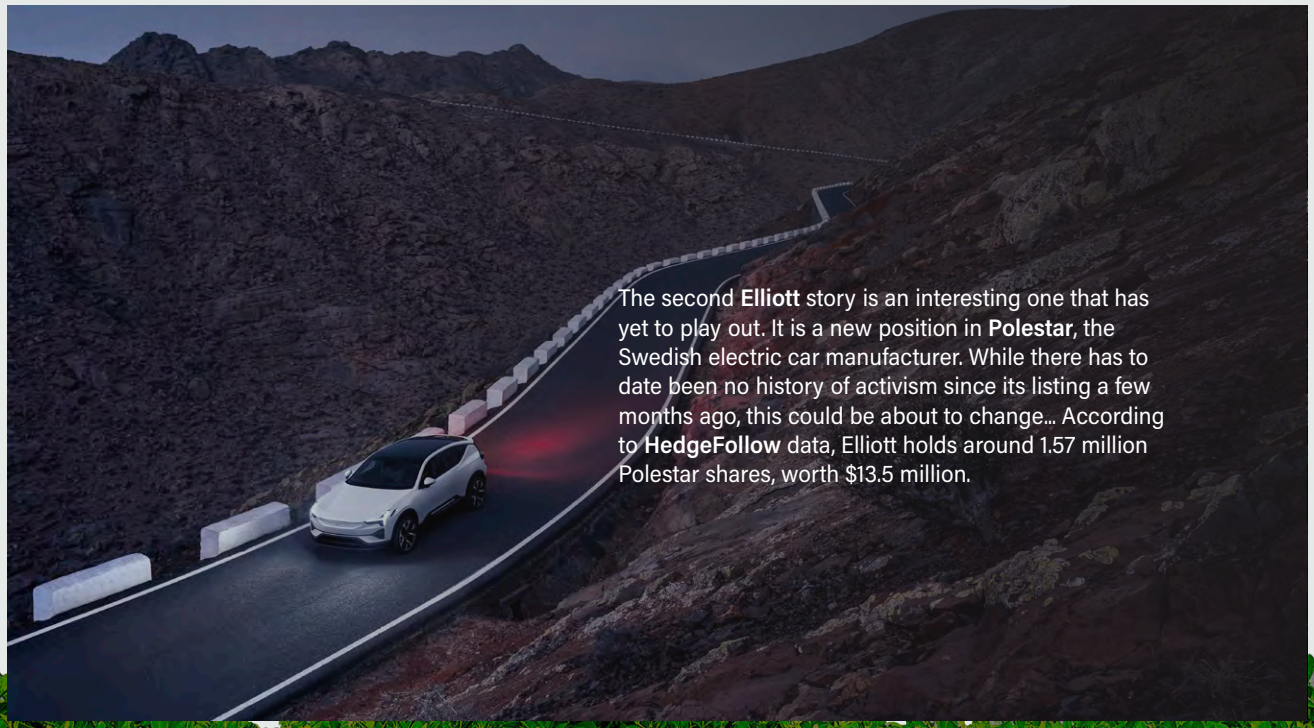
SALESFORCE IN PLAY

Activist funds have been pretty quiet in recent months, so it was almost cathartic to see **Starboard Value** take a stake in **Salesforce**, although not so sure the CRM firm would see it that way. Salesforce shares are down around 40% this year but rose 4% on this news. Speaking to **CNBC's** ***David Faber***, Starboard founder ***Jeff Smith*** said that he continues to see *"significant opportunity"* with Salesforce *"ingrained in the fabric of so many companies"* but failing to *'generate meaningful operating leverage relative to peers.'*

ELLIOTT LIGHTS THE MATCH

It is normally a struggle to write this publication without including a story on **Elliott Management.** So, this month, the first of these is Elliott's position in **Swedish Match**, the smokeless tobacco specialist, in which the activist upped its stake to over 10% (around $1.7 billion). This was to influence **Philip Morris International's** $16 billion takeover bid. Likewise, **Davidson Kempner Capital Management** increased its stake to 5%. Under Swedish law, **Reuters** writes, the deal needs 90% of shareholder backing to take full control.

It clearly worked, with Elliott backing the takeover, having voted against the deal earlier this year, which resulted in an improved offer from SKr 106 to SKr 116 per share. According to the **Financial Times,** given its position, Elliott has been the *'kingmaker in the deal.'*



The second **Elliott** story is an interesting one that has yet to play out. It is a new position in **Polestar**, the Swedish electric car manufacturer. While there has to date been no history of activism since its listing a few months ago, this could be about to change... According to **HedgeFollow** data, Elliott holds around 1.57 million Polestar shares, worth $13.5 million.

CRYPTO

BULLISH SIGNS AND THEN ALONG COMES FTX...

Reuters writes about funds becoming increasingly bullish on digital assets, notably bitcoin and ethereum, having survived a particularly brutal 'crypto winter.' This comes from a **Morgan Stanley** note that tallies the number of crypto exchange traded products at 180, of which half have been launched since the start of this *'winter.'* We are still talking very small numbers, with these investment products seeing inflows this year of only $543 million. Interestingly Switzerland, Canada, Australia and Brazil tended to be the locations of choice for these ETP's.

Until **FTX's** liquidity crisis came to light on 8 November, crypto appeared to be having a reasonably stable few months. Whether this is the start of another freeze will only really be apparent in the coming weeks, with bitcoin and ethereum dropping 11% and 16% on the day.

EDGE CAPITAL RAISES $70M FOR DEFI FUNDS

Another crypto manager to successfully raise assets is Atlanta based **Edge Capital**, which was set up by ***Vadim Khramov***, who was previously at **Bank of America**. This has raised almost $70 million for two Defi Focused funds, one Cayman structured and the other US based.

According to its blurb, Edge Capital invests in *'digital assets, blockchain and DeFi markets' looking for 'untapped opportunities based on our multidisciplinary expertise in macro trading and analysis.'*

Fidelity is one of the more established *'institutional'* crypto managers and has recently added to its crypto offerings, with the launch of **Fidelity Ethereum Index Fund.** This is for accredited investors and according to **CoinDesk** tracks the index benchmark using passive and director ownership of the digital currency. This follows Fidelity's 2020 launch of **Wise Origin Bitcoin Index Fund.**

ESG

NET ZERO FUND

While investors appear to be less enthusiastic about climate investments than they were a year ago - hopefully temporary once these current markets have played out and appetite resumes post COP 27 - it is a relief to see **Lightrock's** climate fund raise €860 million for a net zero climate impact fund. This is well above the €600 million target.

The private equity fund will make growth investments from €10 to 40 million in companies that are behind the net zero economy in Europe and North American. It has already made seven deals so far.

Investors include anchor investor **LGT Group, Första AP-fonden** and the **Grantham Foundation**.

HY24 RAISES €2BN

Another fund to raise sizeable assets in this space is **Hy24**, which has closed the **Clean H2 Infra Fund.** This has raised €2 billion, which is above its target of €1.5 billion, which will be invested in proven hydrogen technologies. Claiming to be the *'world's largest pure-play clean hydrogen infrastructure fund,'* HY24 is looking to mobilise up to €20 billion over the next six years by working alongside other strategic investors.

ART AS AN ALTERNATIVE INVESTMENT

This month we look at alternative alternatives and take a step away from our more commonly travelled paths of hedge funds and private equity, *Alastair Crabbe* writes. For this, I have been immensely lucky to sit down with a well-known art collector who is also a successful alternative investor, with a particular penchant for more esoteric untapped artists.

During our conversation, which was on background, he opened my eyes to a market that I know very little. He talked about the difficulties of investing in good art, which he believes to be very expensive, offering only a handful of undervalued sectors, or as he put it metaphorical *'diamonds.'* He likened these to illiquid stocks that come with little research and no recent financials.

Yes, there are indices, but these are few and far between and not all are regularly updated. They show trends, which are useful and provide a degree of insight, but as always with indices they are a show of the past not of the future.

One of the downsides of investing in art is the expense of owning it. As a philistine and one who has bought remarkably little art, certainly nothing good, I had never given this any thought; simply put, I naively assumed you bought your piece at market value, you hang it and one day you potentially turn a profit. Instead, as I found out, there are the costs of research, insurance, storage, investing in the optimum environment (for the really good pieces) and a remarkably high seller's fee, which is higher than a hedge fund's performance fee – on average the auction cut is 30% and a gallery's closer to 20% of the item's value.

The greatest store of value he believes can only truly come from finding tomorrow's *Hockney, Hirst* or *Kusama*. To do this, you need to extensively research, conduct deep due diligence and it takes years of knowledge. It is a difficult game, littered with value traps.

If you are not prepared to find that unknown artist, then you can be a trend follower, but beware of jumping on that bandwagon, for trends do not last forever. What was worth £100,000 is not necessarily going to make £200,000; it could just as easily head back down to £50,000 if the wind turns. This was just one of the red flags he raised. Another is the opaqueness and unregulated nature of the market, which comes with all sorts of characters, probably not too dissimilar to various parts of the alternatives world.

But is art a hedge against inflation? The answer appears to be nuanced. Yes, if you take a broad look at the art market in general, which has seen prices reach stratospheric levels. But there are also sectors that have flatlined or not taken off. As in any investment, there are inherent dangers.

For anybody looking to become a collector, again it is about buying the best and choosing a direction. It is a long-term game. It is a world that is hard to enter, but once you are in, new doors open, and further opportunities arise.

The advice he closed with was to buy the best, do the research at galleries and catalogues and, as an art lover himself, buy the artist you love. If you are looking at art as an investment, then you need to find the untapped artist, who is unknown and doing something that is very special. My interviewee suggested African art or more precisely *"art above the Limpopo,"* which he believes is "grossly undervalued" and where it comes down to love of art and raw talent, traits he feel that will be recognised in years to come.

GUEST Q&A

THE EVOLUTION OF THE ART MARKET AND HOW IT IS PROVING RESILIENT TO THE WIDER ECONOMIC WOES

FRANCIS OUTRED

As we delve deeper into the world of other types of alternative investments, this month we look at the art market, which has proved firmer ground than many other investments. In this Q&A, we were delighted to speak with Francis Outred, one of the foremost art consultants in the market, who advises globally at the highest level. Francis was previously Chairman and Head of Post War & Contemporary Art, Europe, Middle East, Russia and India at Christie's. Before Christie's, Francis was Head of Contemporary Art Evening Auctions and Private Sales at Sotheby's.

How has art investment evolved?

Tastes have changed and there has been a definite move from Old Masters to modern. Back in the 1970s and 1980s the art market was dominated by Old Master paintings. In 1970 the first painting ever to break £1 million, was *Velázquez's* Portrait of **Juan de Pareja** (1650), which was sold to the **Metropolitan Museum of Art** for £2.3million at **Christie's**, London. Then in the mid '80s the market evolved to Impressionist and Modern Art, with the crescendo of that period being the renowned sale of *van Gogh's* **'Portrait of Dr Gachet'** fetching $82.5 million in 1990. In the 90s, you saw the rise of the post war market and in the noughties the market turned to the likes of *Warhol* and *Rothko*. Then in 2013, we (Christie's New York) sold *Francis Bacon's* **'Three Studies of Lucian Freud'** for $142 million. This was a record at the time – 20 years earlier, the record price for a Francis Bacon triptych had been $5 million. Since then, there has been an explosion in young contemporary art.

Can you explain the recent interest in the contemporary art market?

There has been huge growth of interest in contemporary art. Crowds are flocking to museums all over the world. Every year we see new record attendances at the main museums, which has helped to build a global understanding of the art of our time and it invigorates and excites. As a result of this, growing numbers of buyers are wanting to acquire art and there are more localised markets encouraging younger artists to commit to the vocation, meaning there are more artists and more choice of new art to buy than ever before. As a result, one of the biggest features of the present market is a great deal of speculation in the young art market. Artworks sold by primary galleries for thousands of pounds can reappear at auction within a couple of years for hundreds of thousands of pounds.

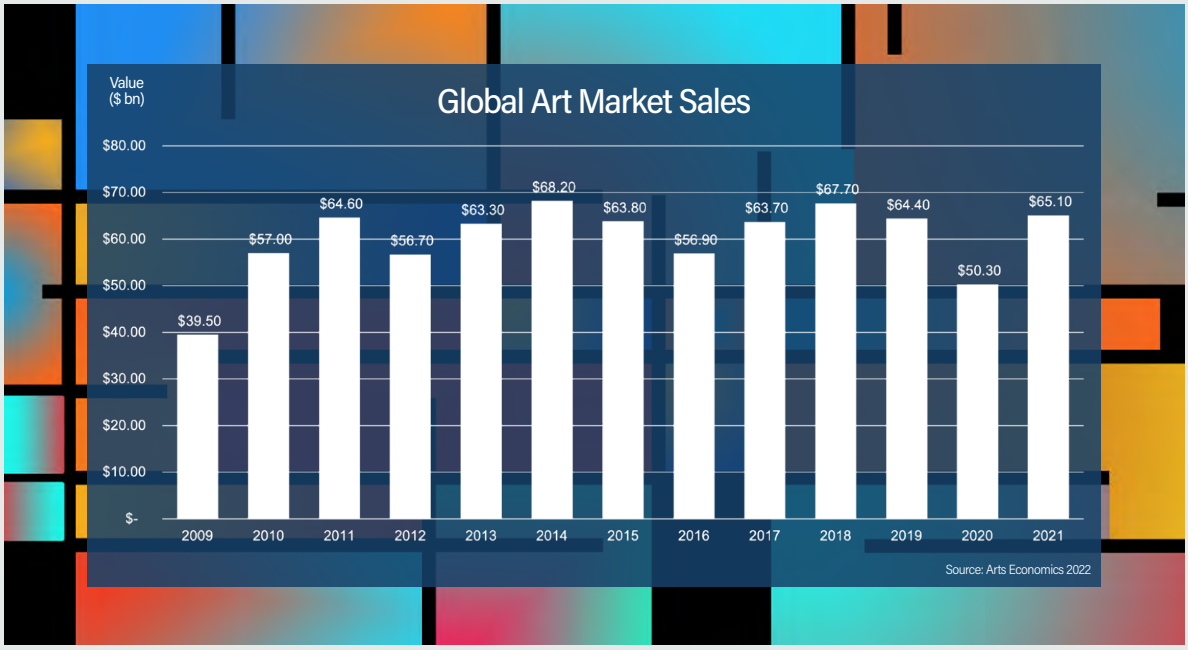
GUEST Q&A (CONT.)

Elaborate on the speculators?

There has been so much hype about certain artists that there will always be speculators. Some investors treat this market like a concentrated portfolio, buying five or six works by one artist and then a few years later divesting at a different level. For these investors, art has become a currency and there are bets being taken every day. When I started in this world, the art market was a much smaller group of collectors, largely collecting for love, passion and personal edification. Today it is a far more complex place. The ecosystem is also far larger, the galleries bigger and perversely, as audiences have grown in museums, their state funding has decreased, so they are increasingly looking for support from the private sector.

under the radar. This has been talked about for 20 years, but only today is something being done. We are now seeing museums being built dedicated to contemporary African art, such as **Zeitz MOCAA** in Cape Town, which gives the local community of artists and collectors a touchstone on the new cultural creativity, much as the **Saatchi Gallery** in London did in the 1990s for Young British Artists. Today, there are a lot of people picking through the 20th century artists to see who has been overlooked.

If you are looking for consistent long term growth, then you need to be focusing on the big blue-chip names, such as *Francis Bacon* and *Andy Warhol*. While their value multiples may not be jumping to the same extent as *Mitchell* and *Drexler*, they look well set to continue appreciating over time as their



Are there value and growth sectors in the art world?

It is a mix of both. In terms of value, it is about finding the unknown or the under-loved artist. One segment, has been rediscovering artists who have slipped through the net. As the market for 20th and 21st century continues to grow, the opportunity to look back has also increased as our appreciation of art history moves from the established 'shock of the new' to a broader appreciation of artist who may have been overlooked due to gender or race. This has become a wonderful gold seam for collectors. A good example is *Lynne Drexler* (1929-1999), an American Abstract Expressionist artist whose works overnight went from $10,000 to $1.5 million. Another example is *Joan Mitchell* (1925-1992), a more recognised artist from the same period, whose art has gone on a similar journey of rediscovery. over a longer period of time and is now in the $20million plus zone for top masterpieces There are three or four Abstract Expressionist artists that are being relooked at. This realignment is not just about gender, it is a social reawakening that is also increasingly recognising talented black artists, who had been

reputations have been cemented over a longer period, even if the market for Dead White Men is currently a bit soft!

Does that means that Old Masters have become passé?

There are always challenges when it comes to buying Old Masters, including authenticity, condition of the painting and even evolution of the subject matter. At any time in art and life, there are degrees of relevance, be it artist, subject matter, or style of painting. Generally speaking, prices have been stable, but only when the condition of that piece is perfect and authenticity is not being questioned. It is not so easy to unravel the value and story of a painting that is more than 400 years old. Using the average auction sell-through rate as a proxy for overall market interest, the figure for Old Masters is around 70%, whereas it is 85% for Impressionists and 90% contemporary art. The market for contemporary art is not only far bigger, but more pieces are being sold, and there are fewer questions hanging over them, which gives the buyers greater confidence.

GUEST Q&A (CONT.)

Is art resilient to a recession?

I wouldn't say that, but with the wealthy only getting wealthier, the high-end part of the art market appears to have been largely immune to the recent economic upheaval. It was pretty much business as usual through much of Covid, although the market moved away from auctions to more private sales. Interestingly, Covid also forced a big switch to online buying when collectors couldn't travel, which has somehow made acquisitions quicker and easier and also enhanced the market over the past two years.

When do you start to build a collection?

For the wealthy, art is a visually appealing asset. Once you have bought your toys and houses, art is next. It is portable and you can enjoy it, and it doesn't require maintenance, unlike a boat or a plane. It also doesn't have a shelf life. There are plenty of plusses and it provides pleasure. If you have a philosophical background, art also provides people with a way to reflect on their lives. It gives them a different perspective. Every art collection is unique to that person, which is very important.

What type of collections stand out?

Invariably the collections that stand the test of time are those that have that person's identity stamped all over them. These are the great collections that reflect idiosyncratic interests and taste and are not repeatable. Through the art world, a great collector can be as creative as the artist that created the work. If the great innovative minds, who have succeeded in their chosen fields, take the time to develop and train their eyes and minds to the best that art has to offer, it can be an exhilarating and highly fulfilling adventure.

Should you stick with a particular artist or genre?

An art investor should build their portfolio in a similar approach that they take to stocks. If you believe more strongly in one stock over another, then you buy more of that stock. In art, you do the same. If you are looking to build an abstract expressionist collection, you might for example start with Lee Krasner, as she appears good value, so you buy two or three of her paintings; you then might elevate to a more establised stock like *Willem de Kooning* from his main periods; and then add a *Jackson Pollock*, as they are expensive, but could get more expensive. It is about depth and relevance of the artist and direction of the sector.

Do art funds have a meaningful impact on the art market?

Art funds come and go and are not impacting the overall art market. There are only a handful of these funds. What is driving the market are the artists, private collectors, galleries, museums and auction houses. From where I sit, the fundamental basis of investing in art comes down to individual taste. This is not the case with funds, which tend to buy art by council and with different motivations which ultimately leads to compromise. It is also extremely difficult to buy the right art. One of the big lessons I have learnt acting on behalf of collectors since I left Christie's is how difficult it is to find the best art at the right price.

Where do you see the most exciting areas in the contemporary market?

I find a lot of today's art is momentary. There will always be great artists in the pack, but with so many artists, it is hard to focus. As a result, I tend to look at the same artists I looked at when I was younger, which are the post war artists. This was a golden age and a time when the shackles were removed; they weren't pinned down to traditions and themes, it was maximum creativity. We have got to a point now in the market when a great deal of the ideas and forms we are seeing is being recycled. This is part of the reason why this segment of the market is so strong because it has ignited the interest of people from well beyond the arts, giving the period relevance and inspiration.

CLASSIC CARS CONTINUE TO OUTPERFORM AND REMAIN A HEDGE AGAINST INFLATION

GREGOR FISKEN

As we look further into the world of alternatives, we take a peek under the hood of the classic car market with the internationally renowned classic car dealer Gregor Fisken. Gregor is a leading authority on these markets, having owned, sold and raced some of the most famous cars in the world. He set up Fiskens Fine Historic Automobiles almost 30 years ago at Queens Gate Place Mews and it has always been a treasure trove of beautiful motors. Gregor is more than a dealer, he is a font of knowledge and a very successful racing driver, having contested at Le Mans 24 Hours in four classes and has been the works driver for Courage.

What are the most significant changes in the classic car world?

It is too easy to say technology and access to information given these factors have impacted every facet of our lives, but in fact it is the meteoric rise in the number of events that has most radically changed our collectors' priorities. Thirty years ago there were only a handful, with Pebble Beach, the Mille Miglia and a few historic racing events, but more and more collectors are making purchases with event eligibility as their leading criteria. We are seeing a predominance of people wanting concours ready cars, or guaranteed entries to whatever their chosen series is. Collecting classic cars is now about much more than just the car itself - it has become a way of life, with ownership the key to a hobby and a community. As modern cars have become more synthetic, one of the great freedoms and pleasures is the analogue nature of classic cars, they're totally engaging to all the senses. Younger collectors want these experiences and are looking for events that are in stark contrast to their technologically saturated day-to-day lives.

Where are you seeing the fastest growing sectors?

With collectors increasingly looking for event eligible cars, the priority has shifted to cars with history and provenance as these are the criteria selection committees are looking for. The shows want the 'best of the best' and our clients

GUEST Q&A (CONT.)

are following suit. With the 100th Anniversary of Le Mans the focal point of the 2023 calendar, we have seen a particularly high demand for cars with guaranteed entries and expect this demand will continue well into next year.

It is no secret that younger cars are also seeing a boom as increasingly numbers of young collectors invest in the poster cars of their childhood. This trend has appeared in every generation of investors and we expect it will continue to do so with Le Mans Prototype icons and rally heroes on the rise.

> In recent weeks our dollar based clientele have been able to take full advantage of their favourable position.

Have pre-war cars become passé?

This is certainly not the case. We have actually found that the pre-war market has been resilient and in recent months has seen a lot of movement. The best of the best pre-war cars have never been stronger and still completely dominate the awards list at preeminent, blue-ribbon, concours events. In fact, the best in show at this year's Villa d'Este, Pebble Beach and Hampton Court all went to phenomenal pre-war cars.

We're also seeing the emergence of a counter-culture group of younger enthusiasts engaged in Veteran Sports Car Club events because it is exhilarating fun and reasonable price point. At the Prescott Hillclimb this year, there was a noticeably large population of under-30s and even larger under-20s all enthusiastically engaging with the pre-war scene. These cars tick a lot of boxes, they are noisy, fast, messy and visceral - a welcome break from the sterile plugged in lives many of us lead.

Are classic cars resilient to a recession?

In a world where the stock market has recently struggled, classic cars have proven to be a great hedge against inflation and the market is looking very vibrant. In recent weeks our dollar based clientele have been able to take full advantage of their favourable position and we have been pleased to generate positive results for our pound-based sellers.

GUEST Q&A (CONT.)

Would you say most people stick with a marque or era or do you find they form a more diverse collection?

Nowadays, there's always the odd collector that will stick with a marque, but most clients love a diverse portfolio of cars. We have clients with everything from a London to Brighton veteran, as well as a Le Mans winning sports car from 2002 and everything in-between. What we often find, is that we will help our collectors secure the greatest of every decade and the most eligible for each event or race series. We love educating clients on new areas of interest, and our long-standing connections with preparers and restorers has allowed us to offer them new opportunities and the support to explore different areas and eras of collecting.

> There's always the odd collector that will stick with a marque, but most clients love a diverse portfolio of cars.

Do you see funds having a meaningful impact on the market?

Recently we have had more interest than ever from investment funds looking to diversify their portfolios into alternative assets such as classic cars. If guided and managed properly there is huge potential for the right funds to do very well, but it is clear that they need qualified, expert guidance. There's no substitute for the 30 years of experience that we can offer as we have seen the market go through every variety of peak and trough and handled many of the world's greatest cars in that time.

REGULATION

Presented by RQC GROUP

FCA CONSULTS ON SUSTAINABILITY DISCLOSURE AND INVESTMENT LABELS

The **FCA's** Consultation Paper CP22/20, published on 25 October, sets out the regulators plans for the introduction of sustainability disclosures and investment labels, plus anti-greenwashing measures.

The proposed requirements focus on asset managers and product distributors, and covers the following areas:

1. Sustainable investment labels – this is a voluntary scheme enabling products to be labelled under one of the following categories: sustainable focus; sustainable improvers; and sustainable impact
2. Consumer-facing product disclosures – to assist consumers understand the key sustainability-related features of an investment product
3. More details disclosures at product and entity level – these are targeted at a broader range of stakeholders aside from consumers. The disclosures are divided into: pre-contractual disclosures; ongoing sustainability; and entity level disclosures
4. Naming and marketing rules – this includes an anti-greenwashing rule clarifying that sustainability-related claims must be fair, clear and not misleading
5. Requirements for distributors – the sustainable investment label and consumer-facing disclosures must be made available to retail investors

The Consultation closes on 25 January 2023. The final rules will then be set out in a Policy Statement which has a provisional date of 30 June 2023. The rules will then take effect over a three year time-frame, with the anti-greenwashing rule taking effect immediately and the disclosure requirements taking effect between 30 June 2024 and 30 June 2026.

Similarly to other recent regulatory developments such as the Consumer Duty and updated rules on the promotion of high-risk investments, these proposals have a focus on ensuring that consumers are protected. There are, however, various requirements that apply to firms that do not (directly or indirectly) engage with consumers. An institutional asset manager may need to consider amendments to marketing materials, fund offering documentation, ongoing reporting to investors and website content.

Where a product is manufactured or distributed globally, there is the additional challenge of ensuring compliance with various sustainability disclosure frameworks. Whilst there are some similarities between the FCA's proposals and other frameworks such as the EU's **Sustainable Finance Disclosure Regulation** ("SFDR") regime and the U.S. **SEC's** proposals, the frameworks are not wholly aligned. For example, the proposed investment labels are different from the three product categories (Article 6/8/9) under the SFDR.

FINANCIAL CRIME ENFORCEMENT ACTION

Three enforcement cases from October highlighted a continued focus on financial crime.

The **FCA** began criminal proceedings against five individuals involved with **Worthington Group plc.** ("WG"). This followed a criminal investigation into market abuse and market manipulation following the suspension of WG's shares from the **London Stock Exchange**.

It is alleged that the individuals knowingly concealed WG's insolvent position from the market. Furthermore, it is alleged that certain of the individuals co-ordinated a *'pump and dump'* scheme, by making a series of misleading announcements to the market about deals with energy, media and mining companies to artificially inflate the share price, enabling them to sell shares and make significant profits.

The FCA also fined a brokerage firm and banned and fined its former directors following market abuse reporting failures.

Sigma Broking Limited ("Sigma") failed to make to the FCA – or did not accurately report to the FCA - suspicious transactions and orders reports related to contracts for difference transactions. Such reports are a key regulatory tool for combating market abuse.

Many of the failings had their origins in the inadequate governance and oversight provided by Sigma's board of directors.

Finally, the FCA fined **Gatehouse Bank plc** ("Gatehouse") for poor anti-money laundering checks.

Gatehouse failed to conduct sufficient checks on its customers based in countries with a higher risk of money laundering and terrorist financing. Gatehouse also failed to undertake the correct checks on customers classified as Politically Exposed Persons.

In one instance, Gatehouse set up an account for a company based in Kuwait to aggregate customer funds. Gatehouse did not require the company to collect information about customers' source of funds or wealth, which was required under Gatehouse's anti-money laundering policies. As a result, over a two-year period, Gatehouse accepted US$62,000,000 into the account without properly vetting the funds for financial crime risks.

REGULATION (CONT.)

Presented by RQC GROUP

SEC PROPOSED NEW OVERSIGHT REQUIREMENTS FOR CERTAIN SERVICES OUTSOURCED BY INVESTMENT ADVISERS

The SEC proposed a new rule and certain amendments to the Investment Advisers Act of 1940 to prohibit registered investment advisers from outsourcing certain services and functions without conducting due diligence and monitoring of these service providers.

The proposal would require advisers to satisfy specific initial due diligence elements before retaining a service provider that will perform certain advisory services or functions, and subsequent on-going and periodic monitoring of the service provider's performance. The rule would apply to advisers that outsource certain *"covered functions,"* which include services or functions that are necessary for providing advisory services in compliance with the Federal securities laws and that if not performed or performed negligently would result in material negative impact to clients.

The proposal would also require advisers to conduct due diligence and monitoring for all third-party record keepers and obtain reasonable assurances that the record keepers will meet certain standards. Lastly, advisers would be required to maintain books and records related to the new rule's oversight obligations and to report census-type information about the service providers covered under the rule.

CFTC RELEASES ANNUAL ENFORCEMENT RESULTS

The CFTC released their annual enforcement results for Fiscal Year 2022. This includes:

- Orders imposing over $2.5 billion in restitution, disgorgement and civil monetary penalties;
  - » 82 enforcement actions, involving the following:
  - » Digital assets related actions;
  - » Manipulative and deceptive conduct and spoofing;
  - » Record keeping and supervision;
  - » Violations by registered entities;
  - » Misappropriation of Material Non-Public Information;
  - » Swaps reporting and swap dealer business conduct;
  - » Other enforcement actions: fraud, registration, reporting, wash trading, position limit violations.
- The CFTC's Whistleblower program paid out a record-breaking award of nearly $200 million to a single whistleblower.

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Brodie Consulting Group is an international marketing and communications consultancy, focused largely on the financial services sector. Launched in 2019 by Alastair Crabbe, the former head of marketing and communications at Permal, the Brodie team has extensive experience advising funds on all aspects of their brand, marketing and communications.

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CAPRICORN FUND MANAGERS

Capricorn Fund Managers Limited is an investment management and regulatory hosting business that provides regulatory infrastructure and institutional quality operational, compliance and risk oversight. CFM is part of the Capricorn Group, an international family office, which has been involved in alternative assets since 1995.

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RQC GROUP

Founded in London in 2007 and with a dedicated office in New York, **RQC Group** is an industry-leading cross-border compliance consultancy specializing in FCA, SEC and CFTC/NFA Compliance and Regulatory Hosting services, servicing clients with AUM in excess of $295 billion.

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