

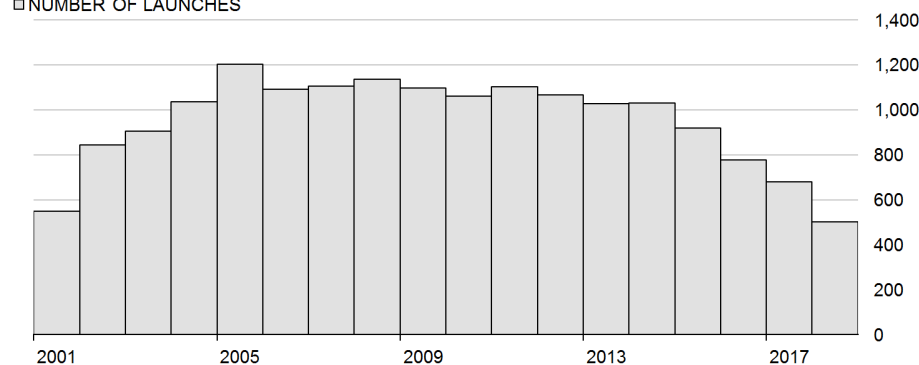


## WEEKLY BRIEF: HEDGE FUNDS

### – HEADLINES –

**Hedge funds are closing at a faster pace** than they are opening, and the number starting out is the lowest since the start of the century. But a brave few setting out on their own say they haven't seen these opportunities in a long time. They point to 10-year U.S. yields rising above 3%; the prospect of trade wars; the return of stock market vol; Brexit chaos and political tumult in other countries; or the retreat of competitors.

**ROCK BOTTOM**  
STARTUPS AT NEAR 17-YEAR LOWS  
□ NUMBER OF LAUNCHES



NOTE: DATA SHOWS NUMBER OF LAUNCHES IN 12-MONTH PERIOD ENDING APRIL  
SOURCE: EUREKAHEDGE

**Florida's effort to lure Wall Street** hotshots is gaining traction thanks to the federal tax law's new cap on state and local tax deductions at \$10,000. Florida officials are banking on the new law being the final push to rebrand Miami as "Wall Street South" and Palm Beach as "Hedge Fund South." There may be even more movement since the IRS signaled it's likely to block efforts to use charitable contributions to circumvent the \$10,000 cap.

Lawyer-turned-distressed debt investor **Mark Brodsky** isn't about to back down. The Aurelius founder, who made his name suing companies over unpaid debts, uses novel legal theories and aggressive tactics in a strategy that has worked out pretty well for clients. Since the firm's

inception in 2006, its flagship fund has generated annualized returns of 7.4%, versus 4.9% for your average distressed debt fund. Read more on Bloomberg [here](#).

**Jim Chanos** has developed a view of Bitcoin: It would fail in a crisis. Fiat currencies have advantages when things go awry, because governments can enforce their use and act as lenders of last resort, Chanos said in an interview with the Institute for New Economic Thinking. Digital coins have no such backing. "The last thing I'd want to own is Bitcoin if the grid goes down," he said.

There's high-conviction funds, and then there's **Stephen Diggle's health-care funds**. His \$100 million Vulpes Life Sciences Class A fund holds only two stocks, and the \$50 million Class B fund just three. While the strategy has paid off – the Class A fund has gained 80% this year through May 25 – Diggle says it's time to diversify and is opening the funds to outside investors as he targets as many as 12 listed and privately held biotech investments.

Regulators are a step closer to **rolling back the Volcker Rule**. The SEC voted today to seek public comment on the Volcker revamp, the last of five agencies that needed to sign off on the proposal, which maintains the ban on proprietary trading. But the proposal would remove an important assumption that positions held by lenders for fewer than 60 days are proprietary and make it easier for banks to determine whether trades are prohibited.

**Raj Rajaratnam** can't overturn his 2011 insider trading conviction and must remain in prison, a federal appeals court said June 1. The Galleon founder, who sought collateral relief from his conviction, is scheduled for a July 2021 release.

**Sparrow Fund Management** said in a lawsuit it was falsely accused by MiMedx Group of trying to illegally manipulate the biotech firm's stock price. MiMedx accused Sparrow of being part of a conspiracy of short sellers and publishing disparaging statements under the pseudonym Aurelius Value, despite knowing the claims had no merit, according to Sparrow's defamation suit filed June 4.

It's official: **David Tepper** paid \$2.3 billion to become the new owner of the Carolina Panthers, a record price for an NFL franchise. The Appaloosa founder will be able to write off his purchase over 15 years, giving him about \$150 million annually to offset any team profits or his other business income.

**Blackstone's GSO Capital Partners** and Solus ended a dispute over a financing plan for Hovnanian Enterprises, resolving a spat that roiled the credit derivatives market. The settlement doesn't abolish bigger concerns about creative financing, but Solus agreed to halt its lawsuit. The two firms said the matter's now settled.

**Hedge funds** are seeing a 50% increase in demand for [responsible investment offerings](#) from current and prospective investors, according to a survey of about 80 managers from AIMA.

## – ALPHA –

### On the Move

**Jeff Runfeldt**, a former Citadel exec who's twice left Ken Griffin's firm, is joining Balyasny next month as global head of equities, said a person familiar. The role is a new one for Dmitry Balyasny's firm, which oversaw about \$10.8 billion in assets as of March 1.

**Goldman's ex-Brazil Chief Paulo Leme** will help lead Vinland as it looks to tap overseas investors. Leme will be both chairman and a partner – an appointment that reunites him with Andre Laport, who left Goldman early last year and founded Vinland with James Oliveira, formerly one of BTG Pactual's controlling partners. It launched its first two funds in March to local investors and plans to open them in July for those outside Brazil.

**D.E. Shaw hired David Gallagher** as co-head of its new litigation investing group, which will focus on financing complex commercial disputes, said a person familiar. Gallagher, who joins June 11 from litigation finance company Bentham IMF, will lead the group with Sarah Johnson, a senior v.p. of the firm's corporate credit strategy.

#### Launches

**Former Citadel portfolio manager Chris Wheeler** is starting his own macro firm, CJW Capital Management, in London with money from George Soros, said people familiar.

**Richard Black**, an ex-Goldman Sachs exec and former partner at Abberton Capital, has started Viewforth Investment Partners in London to trade mid-cap European equities.

**Ex-Bodenholm Capital Co-Founder Erik Karlsson** has formed Industrial Equity Partners in London. The long-short equity fund will begin trading in June with around \$100 million and focus on European stocks, Karlsson said.

**Brant Rubin**, who previously worked at Luxor Capital, has formed London-based Vor Capital, which will start trading this summer with about \$50 million in assets, according to an investor document. The fund will focus on niche internet opportunities primarily in Europe.

**Julien Stouff**, formerly at Pictet & Cie, is starting Stouff Capital with Gregory Chevalley. The two will try to make money from rising and falling stocks.

#### - VOICES -

## Ideas From Sohn Hong Kong

BY MOXY YING, BEI HU AND TOM REDMOND

A hedged bet on tech giant Tencent, a bearish call on online retailer JD.com and an activist campaign on a Japanese company were among ideas unveiled by managers at the annual **Sohn Hong Kong Investment Conference** last week. Read the full story on Bloomberg [here](#).

#### **Benjamin Fuchs, founder of BFAM Partners (Hong Kong)**

Fuchs pitched a Tencent trade designed to profit whether shares go up or down. It involves buying both Tencent shares and put options, which Fuchs said are mispricing the odds of a decline in the stock. The bet will pay off if Tencent swings more than 15% in either direction, and produce a major windfall if the shares lose more than 20%. The position could deliver a 30% return on capital over the next six months, Fuchs added.

#### **Kok Hoi Wong, CIO of APS Asset Management**

Wong took down JD.com, accusing the company of making "regrettable and silly" investments, and warned about its inability to make a profit in a cut-throat Chinese arena. Wong drew laughs after saying the company's founder Richard Liu hasn't ever run a profitable company in his life, and said his own internal valuation for the \$52 billion company was "a tiny figure."

#### **Seth Fischer, CIO of Oasis Management**

Fischer unveiled a new activist campaign in Japan, targeting a listed subsidiary of discount retailer Don Quijote Holdings. Its real-estate arm Japan Asset Marketing should pay a dividend, install a "truly independent" board and introduce stock-based compensation for senior management, Fischer said. If the company doesn't do that, it should privatize, Fischer said. Its shares have the potential to rise by about 50%, he said.

**Rajesh Sachdeva, CEO of Flowering Tree Investment Management**

Sachdeva's pick is Vietnam Prosperity JSC Bank, which offers investors "a Mercedes at the price of a Toyota." VPB's active customers account for a quarter of Vietnam's urban workforce and, together with the nation's solid economic fundamentals, VPB is Asia's cheapest bank stock with the highest return on equity, he said. Sachdeva predicts the stock will rise four to five times over the next three years "if the world doesn't come to an end."

**Ben Melkman, founder of Light Sky Macro**

Melkman said faster inflation in Japan will eventually lead to higher rates. One way to express this view is a spread trade to get a bearish exposure on the 10-year Japan Commodity Clearing House rate, he said. Alternatively, investors can buy shares of banks listed on the Topix index to benefit from rising rates, he said.

**Eashwar Krishnan, managing partner of Tybourne Capital**

Line shares may more than double in the next three years as Japan's largest messaging service reaps more revenue from advertising, games and selling emoji-like stickers, said Krishnan. Adding financial services and apps such as shopping and food delivery could generate a 60 percent internal rate of return in that time, he said.

**Wesley Wong, CEO of Oxbow Capital**

Shares of the owner of China's third-largest airport, Guangzhou Baiyun, may climb 50% in the next 12-to-18 months as a new terminal increases passenger numbers and it makes more money from retail rents, Wong said. He predicts the airport will generate ebitda 20% higher than consensus estimates. The Shanghai-listed stock will also trade at a price-to-ebitda multiple of as much as 30% higher than now, he said.

**- MARKET CALLS -**

**David Tepper called Allergan's plan** to sell two businesses a "half-hearted attempt to restore strategic momentum" and is calling for a management shakeup at the drugmaker. The fund owns 1.1% of Allergan's shares. Tepper's letter follows Allergan CEO Brent Saunders' announcement last week that he plans to sell its women's health and antibiotics divisions and focus on four existing therapeutic areas, including its Botox franchise.

**GLG CIO Pierre Henri Flamand** said the Man Group unit cut its bearish bets on Italy as a lot of bad news is already priced in by markets. Flamand said the selloff shows it's time to be prudent as there is volatility ahead. The firm's Italian bets are much more balanced since May 29, he said, adding that the country's banks have good management teams.

**Short sellers are targeting Deutsche Bank again.** Bets against the lender rose to 5.1% of outstanding shares on May 31, the highest since May 2017, according to IHS Markit. AQR boosted its wager to more than \$520 million in May while Marshall Wace has a \$150 million position.

Travelodge Hotels and Marseille-based container line CMA CGM were among the firms proposed for short bets at a quarterly **working dinner of London hedge-fund managers** last month, people familiar said. The discussion at the Third Bridge-hosted event struck a tone it hadn't in years as guests were asked to suggest which bonds were likely to fall in value. Junk bonds are falling out of favor amid plans by the ECB to wind down the asset-purchase program that's buoyed credit markets since 2016.

**Nordkinn Asset Management** reduced its exposure to higher German and Swedish rates, said Bjorn Roger Wilhelmsen, one of three partners who used to work at the Norwegian central bank. "We had no positions directly in Italy, but it affects our view of the ECB," he said in an emailed response to questions May 31. "The likelihood that the ECB will raise interest rates next summer will be a bit smaller. They are likely to delay the interest rate hike a little."

**- RETURNS -**

Returns were compiled from people familiar, investor letters and Bloomberg News reporting.

**Losses**

**Algebris lost money in nine pools** investing in credit to equities during May, a month when political turmoil in Italy roiled global markets, according to an investor letter. The firm's largest financial credit fund, which manages 5 billion euros (\$5.9 billion), lost 3.1%, erasing gains for the year. The financial equity strategy lost more than 9%.

After the market selloff May 29, **Field Street's Global Investments fund extended May losses** to 50% from Italian debt bets, said people familiar. The loss, the worst on record for its macro fund, halved the size of that fund to about \$110 million and erased its gain over the first four months. Its larger flagship fixed-income fund had a smaller loss in May, and is still up for 2018. Several investment professionals have exited as AUM fell by about \$500 million over the last year or so.

Computer-driven funds at **Aspect Capital and H2O** lost money as volatility rose May 29. Aspect's main fund lost more than 5% on the day, said a person familiar, and H2O's Vivace fund slumped 6.5%, Bloomberg data show.

**Leda Braga's main fund at Systematica** fell 3.1% in May, extending losses this year to 6.9%, according to an investor update.

**Gains**

**Brevan Howard's \$4.2 billion Master Fund** surged 7.6% in May, its best monthly return since 2008, boosting gains this year to 8.9%, according to an investor letter.

**Two Sigma's Compass fund**, which trades futures across markets from commodities to currencies, jumped 6% last month, bringing its return so far this year to 2.96%, said a person familiar. The \$52 billion quant firm's Absolute Return fund, which trades stocks, climbed just 0.7% in May and is up 2.4% this year.

**David Einhorn's main fund at Greenlight** rose 3.6% in May, paring its loss this year to 11.9%, according to a client update. His value-investing strategy beat the U.S. stock market, as the S&P 500 Index returned 2.4% during the month, including reinvested dividends.

**Man AHL's currency fund** returned 4.3% amid Italy's market rout, extending May gains to 10.4%, according to data on the firm's website.

**- U.S. -**

RETURNS (%)	MAY	2018
CADIAN CAPITAL*	8.3	13.5
TWO SIGMA'S COMPASS	6.0	3.0
GREENLIGHT	3.6	-11.9
OZ MASTER*	1.8	4.2
QUEST'S ALPHAQUEST*	1.4	21.3
THIRD POINT OFFSHORE	1.1	1.2
TWO SIGMA'S ABOLUTE RETURN	0.7	2.4

SOURCE: BLOOMBERG NEWS

\*Estimate

**- EUROPE -**

RETURNS (%)		MAY		2018
GREENVALE CAPITAL LOW-NET	11.8			27.4
BREVAN HOWARD MASTER	7.6			8.9
Z EUROPE	1.5			6.7
LYNX	0.2			-5.3
NORDKINN FIXED INCOME MACRO	-0.6			0.9
ALGEBRIS FINANCIAL CREDIT	-3.1			-3.0
SYSTEMATICA'S BLUETREND	-3.1			-6.9
ALGEBRIS FINANCIAL EQUITY	-9.3			-5.7

\*Estimate

**- ASIA -**

RETURNS (%)		MAY		2018
ACCUDO ASIAN VALUE ARBITRAGE*	5.8			5.6
WYKEHAM CAPITAL ASIA VALUE	4.9			4.1
MONTEREY JAPAN EQUITY*	0.0			-9.1
MANAS ASIAN EQUITIES VALUE	-1.5			0.2
AVM GLOBAL OPPORTUNITY*	-2.6			-3.3
JUDAH VALUE ACTIVIST*	-9.0			58.7

\*Estimate

**- CALENDAR -**

Date	Organizer • Event	Location
June 6	ALTSO • Rocktoberfest-London	London
June 7	Sohn Conference Foundation • Sohn Monaco	Monaco
June 7	CHFA • Tudor Cubs Roundtable	Greenwich, Connecticut
June 8	AIMA • Next Generation Manager Forum	London
June 11-12	MFIF • Markets & Financial Industry Summit	New York
June 11-13	KNect365 • FundForum International	Berlin
June 12	Markets Group • Midwest Institutional Forum	Chicago
June 13	HFA • Summer Rooftop Social	New York
June 13	Osney • TSAM New York	New York
June 14	AIMA • USA Spotlight 2018	New York
June 14	Hedge Connection • Deal Ring	New York

DISCLAIMER: The information on this page was compiled by Bloomberg from multiple sources, public and private, and is deemed to be accurate, but not definitive or exhaustive. Questions about events should be addressed to the event organizer.

June 18	Catalyst • Quant/AI Fund Investing	New York
June 19	Markets Group • Latam & Caribbean Institutional Forum	Panama City
June 19	AIMA • Emerging Managers Hedge Fund Forum	New York
June 19-20	BOTQ • Battle of the Quants	New York
June 21	MFA • Forum 2018	Chicago
June 21	BattleFin • Discovery Day	New York
June 25	Opal • Private Debt Forum 2018	New York
June 26-27	KNect365 • GAIM	London
June 27	Apex, Broadridge • ESG & Impact Investing: A Critical Market Path	New York
July 3	KNect365 • UCITS & AIFMD Luxembourg 2018	Luxembourg