

The NED

Risk and Governance

Independent intelligence on fund governance issues

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Downturn special

Where will it come from?

Markets crash when the unexpected happens. And crises at funds often occur in places where no one could have anticipated that problems would occur.

By way of background there are a lot of gloomy fund managers wandering around at present. The fourth quarter of 2018 was particularly brutal. One estimate puts losses by European fund managers alone at \$100 billion in the quarter. For example, Amundi lost \$7.4 bn over this period.

Might perhaps the next fund crisis come in the UCITS sector, perhaps a liquidity problem across a number of alternative UCITS funds? How much time do the boards of alternative UCITS funds spend discussing whether they have any real risk of not being able to meet their liquidity terms?

The possibility of a liquidity crisis in the alternative UCITS sector has been raised in the trade media recently. For example, founder of Dynamic Beta Investments, Andrew Beer, a hedge fund industry veteran, was quoted in Citywire as saying that he has 'some serious concerns' surrounding many alternative UCITS funds.

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Downturn special

Boards in bear markets

Many horrors were uncovered when the last crash occurred. How much better prepared are fund boards for the next one?

The horrors that were uncovered last time were often in the alternative fund sector. Many of these funds were domiciled in Cayman and consequently that was where a lot of the post-crash fallout happened. But it was by no means only Cayman.

For example, Madoff feeder funds were domiciled in multiple jurisdictions, including in Luxembourg. A large part of the reason for AIFMD's depositary rules was to prevent another situation arising where no one had a clue where investors' money, supposedly invested with Madoff, had really ended up. Prior to the crash there were regulated UCITS funds, sold to retail investors, that were Madoff feeders and domiciled in Luxembourg.

And Carlyle Capital Corporation was a Channel Islands fund. It collapsed with losses of over \$1 bn. The directors were sued but the Court in Guernsey found in their favour, following a lengthy legal case that was only resolved in 2017.

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