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THE GRAPEVINE

Verition Fund Management has hired a portfolio manager to oversee relative-value credit investments. **Julian Pomfret-Pudelsky** joined the Greenwich, Conn., multi-strategy firm this month after working at **Credit Suisse** since 2013, most recently as global head of credit algorithmic trading. Pomfret-Pudelsky's earlier employers include **UBS**, **Deutsche Bank** and law firm **Davies**. Verition, led by chief executive **Nicholas Maounis** and president **Josh Goldstein**, has \$2.7 billion under management. Its flagship Verition Multi-Strategy Fund, which has never had a down year since inception in 2008, finished 2020 up 30%.

A London-based portfolio manager has returned to **Millennium Management**. **Stephane Fischhoff** arrived this month to cover short-term systematic macro investments at Millennium, where he

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Banner Year for 2 Multi-Manager Stalwarts

Two of the industry's oldest fundamental-equity funds of funds proved their mettle last year in a volatile market that rewarded savvy stock-picking.

Fundana, a Geneva shop founded in 1993, posted a 19.9% return for its flagship Prima Capital Fund, compared with a 10.3% increase in the HFRI Fund of Funds Composite Index. That helped lift the firm's overall assets to a high of \$1.3 billion, up from \$980 million at yearend 2019.

A.W. Jones & Co., founded in 1949 and considered the first hedge fund management firm, shows a 2020 gain of 27.1% for its flagship vehicle. That was the fund's strongest showing since it popped 34.8% in 1999 amid the dot-com bubble.

The New York firm now runs \$567 million, up from \$475 million at the end of July. Sources said A.W. Jones recently signed on a foundation in the Middle East as a limited partner and is in the process of finalizing a "significant partnership" with

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Embattled Fund Picker Maps New Offering

Prophecy Asset Management is laying the groundwork for a new vehicle, even as the multi-manager shop continues to grapple with investor complaints over an allocation to an alleged Ponzi scheme.

On Jan. 5, the New York firm notified the **SEC** that it had begun marketing a vehicle dubbed Scalebuilder Allocation Format. The timing of the fund's launch is unclear, as is its investment strategy.

The manager's flagship fund, Prophecy Trading Advisors, employs a so-called first-loss strategy in which it invests with both new and established portfolio managers on the condition that those individuals personally absorb an initial layer of losses from their trades. In March 2020, the firm suspended redemptions from Prophecy Trading Advisors after one of its underlying managers, **Broad Reach Capital**, was accused by federal prosecutors of running a \$100 million-plus Ponzi scheme.

Since then, questions have swirled about the future of Prophecy. There's been

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Hope Not Lost for Mortgage-Agency Play

Hedge fund operators haven't given up all hope of profiting from the removal of **Fannie Mae** and **Freddie Mac** from government conservatorship.

As the **Trump Administration** fast-tracked efforts to recapitalize the mortgage agencies last year, several managers built equity positions that they saw as likely to benefit from that process. But the outlook for those plays dimmed as it became clear that the privatization push would not gain traction before today's inauguration of President **Joe Biden**.

The odds of a near-term exit also shrank when the **U.S. Treasury Department** said on Jan. 14 that it was looking at a timeline under which it would take years for Fannie and Freddie to build up the capital needed to exit government control.

But fund operators still think the **U.S. Supreme Court** could offer a lifeline via the case of Collins v. Mnuchin. That case, initiated by Fannie and Freddie shareholders, challenges the constitutionality of the **Federal Housing Finance Agency** on the basis that the regulator is controlled by a single director who can be removed by the

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Confluence Off to Dazzling Start

Opportunistic proprietary-trader **Confluence Global Capital** is laying the groundwork to take in outside capital after gaining triple digits in the startup's first 12 months.

The New York firm started trading with \$25 million of partner contributions in January 2020 and went on to record an unlevered, gross gain of 155.4% through December. The showing translates to a 122.2% net increase.

While Confluence's total assets are unknown, it plans to accept its first limited partners once its proprietary capital increases to \$150 million. How long it will take to reach that threshold hinges on the firm's performance.

The end goal for Confluence is to create a multi-manager model. The firm's managing member, former **First New York** partner **Andrew Ross**, is looking to combine in-house traders with limited-partner exposures to outside hedge fund managers, as well as private equity-style fund investments and related co-investments.

Ross formed Confluence in July 2019 with partner **Craig Gorman**, a fellow first New York alumnus. The two have since shaped the firm's operations and trading strategies. The build-out included the February 2020 hire of **Brooks Barge**, also from First New York.

The startup's investment team now has nine staffers, with more hires in the pipeline. Indications are that Confluence has identified a commodities trading-team that it plans to bring on board in the first half of 2021.

Confluence currently invests in outside managers via an internal fund of funds called Confluence Global Capital Partners Fund. Barge, a Confluence partner, heads that effort.

The infrastructure for incoming Confluence investors is still under development. In addition to the fund of funds, Confluence would offer limited partners exposure to its in-house strategies via additional vehicles and separate accounts.

Those market-neutral strategies include trading a highly diverse mix of assets on more than 50 exchanges around the world. There is a heavy quantitative component to many, but not all, of Confluence's trades. Wagers include stocks, foreign-exchange instruments, cryptocurrencies and commodity futures ranging from electricity to metals and grains.

The idea is to "identify short-term price inefficiencies that drive unmatched results," Ross wrote in a letter sent today to prospective investors. The approach is often manifested in quick trades that play out in niche, under-the-radar markets. The majority of those trades are based on a catalyst that Confluence has identified. The strategy employs elements of global-macro investing, along with arbitrage plays.

The fund of funds recently did due diligence on an undisclosed manager that specializes in investing in cattle as a commodity. Confluence also has explored the viability of a quantitative strategy that would bet on the outcome of sports games via Nevada gambling operations.

Perhaps as notable as Confluence's 2020 gain is the fact that the firm achieved it with minimal volatility in especially frothy markets. Confluence finished the year with a standout average

Sharpe ratio of 10. It also had no down months, and its maximum daily loss was just 1.7%.

The firm was up a gross amount of 14.1% in March and 27.2% in April, demonstrating downside protection as the pandemic rattled economies around the world. Ross and his team finished the year with gross gains of 13.4% in October, 20.7% in November and 12.7% in December.

Industry participants called the result impressive, at the same time cautioning that such outsized gains will be much more difficult to achieve with similarly low volatility as the firm's asset base grows.

Ross has been pitching the idea that Confluence specializes in grinding out risk-adjusted returns, like other multi-strategy fund operators.

"To employ a baseball analogy: rather than strive to hit home runs, we strive for a high batting average in order to provide a more stable and consistent return profile," Ross wrote. "We hate losing money far more than we enjoy making it and consider our trading processes to be inherently less risky than more concentrated and static investment philosophies."

Quantitative algorithms that use alternative data sets add a high-frequency element to many of the firm's trades. Indeed, the proliferation of money managers turning to alternative data now fuels the price of a given financial instrument more than ever before, Ross wrote.

"We believe the proliferation of this real-time data, combined with market participants' unabashed impulse to thrust asset prices in whatever direction this information dictates, has ushered in a new regime of short-termism and short-term price dislocation," he wrote.

Before forming Confluence, Ross ran his own family office in New York. Before that, he spent more than 13 years in increasing senior investment roles at First New York. ❖

Industry Critic Launches Hedge Fund

Noted hedge fund critic **Simon Lack** has begun incubating a hedge fund.

Lack, who for years provided seed and acceleration capital to hedge funds as a **J.P. Morgan** executive, only to later knock the industry for what he called its high fees and meager returns, said he formed the new fund because he secured a commitment from an accredited investor not affiliated with his investment advisory firm, **SL Advisors**.

That required him to submit a Form D regulatory filing with the **SEC**. He did so on Jan. 12, classifying the vehicle as a hedge fund.

Lack's Low Vol Hedged Fund runs an equity strategy similar to one he employs in a separate account at his Westfield, N.J., firm. Through the separate account, Lack invests in dividend-producing stocks while taking a short position in the S&P 500 Index. The strategy, a substitute for a portion of an investor's fixed-income allocation, lost 11.6% in the first 10 months of last year — the latest data available — compared with a 6.5% loss for the HFRX Equity Market Neutral Index

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Connacht Beats Market Out of Gate

Startup **Connacht Asset Management** is set to surpass \$150 million of assets after a strong 2020.

The New York firm's flagship Connacht Equity Long/Short Fund was up 42% over 11 months last year, more than doubling the full-year 20% increase in its benchmark, the Russell 2000 Index.

Connacht invests in stocks in the consumer, financial, healthcare, technology, media and telecommunications sectors. The fund focuses mainly on small- and mid-cap U.S. stocks, but it sometimes will take positions in large-cap and non-U.S. companies.

The firm is led by former **Goldman Sachs Asset Management** executive **Sean Gallagher**, who spent about 18 years at the bank, most recently as co-chief investment officer for its U.S. equity business. He also headed Goldman's value-equity business and served as a portfolio manager on a related hedge fund.

Gallagher left in September 2018 to focus on Connacht, where he serves as chief investment officer of the Connacht Equity Long/Short Fund. He began trading the vehicle in February 2020 with \$20 million.

Gallagher is now looking to raise more money. In conversations with prospective limited partners, Connacht has pointed not only to strong gains in the flagship fund, but also to the fact that Gallagher achieved them with an average net exposure of just 25% to 30%.

All the more impressive, the vehicle popped 24.1% in March, a month when the broader market saw steep declines spawned by the pandemic. The fund also saw gains of 8.5% in April, 6% in May and 9.4% in December. The only down months came in July, when it lost 8.7%, and August, when it was nearly flat.

Indications are that Gallagher is preparing for an expected rebound in consumer stocks as coronavirus vaccines reach wider distribution and as lockdowns ease. That, in Connacht's view, would trigger a big boost in consumer discretionary spending, which would bode well for the beaten-down stock prices of casinos, cruise lines, mall operators and movie theater owners.

Bank stocks also would rise if consumer spending ramps up. In addition, the firm expects cyclical healthcare plays to benefit from a broad re-opening of the economy.

Investors who bought into a founders share class pay a 1.25% management fee and 15% of profits. That share class remains open. Once it closes at an unspecified asset threshold, new limited partners would be subject to a 1.5% management fee and a 20% charge on profits.

Connacht also runs the long-only Connacht Small Cap Core Fund and the long/short Connacht Consumer Fund. Portfolio managers **Scott Kolar** and **Daniel Zimmerman**, both formerly of Goldman, run the small-cap fund. **Jason Glass** serves as chief investment officer for the consumer-stock vehicle.

He previously worked at **Armistice Capital**, with earlier stops at firms including **Tourbillon Capital**, **Visium Asset Management**, **Diamondback Capital** and **Circle T Partners**.

Connacht has a staff of 10, including six investment professionals. Among them are two more Goldman alumni: healthcare-stock portfolio manager **Peter Rominger** and analyst **Dylan Emmett**.

Rounding out the team: chief operating officer and chief compliance officer **John Larkin**, chief financial officer **Veronica Farley**, chief administrative officer **Priya Dvivedi** and operations manager **Don Mimnaugh**.

Connacht's chief data advisor is **Jon Neitzell**, who serves as a consultant to the firm. ❖

Atalaya Buys Stake in Direct Lender

Debt-fund manager **Atalaya Capital** has taken a minority stake in direct lender **Elm Park Capital**.

The arrangement, giving Atalaya 10% ownership of Elm Park, appears to mark the first time the New York firm has purchased a share of another manager. Atalaya managed about \$5.5 billion of gross assets at yearend 2019.

Elm Park, based in Dallas, has about \$600 million under management. It typically lends to companies valued at less than \$200 million, a size it characterizes as generally too small to attract adequate attention from banks or larger funds.

The firms' founders have known each other for years, beginning when both worked at **HBK Capital** in the mid-2000s. Atalaya head **Ivan Zinn** hired Elm Park chief **Mark Schachter** as a portfolio manager at HBK in 2004. Zinn left in 2006 to form Atalaya, while Schachter remained at HBK, eventually heading its private credit business in North America. He left in 2010 to found Elm Park.

"Ivan and Mark have shared investment ideas and referred deals to one another as appropriate over many years, and this formalizes the cross-fertilization of sourcing and expertise," Atalaya told investors in an update last week.

Under the passive arrangement, Atalaya does not take part in Elm Park's daily operations or administrative decisions.

Atalaya was on the other side of a similar deal in 2017, when it sold a minority, non-voting stake to **Neuberger Beriman** unit **Dyal Capital**.

Atalaya seeks credit-focused investments in areas it sees as underserved by traditional lenders or the broader market.

It manages several drawdown funds focusing on illiquid investments as well as equipment leasing and some distressed securities, including a flagship opportunities fund. In 2019, the firm expanded its mandate, buying contracts to manage collateralized loan obligations from **Tiptree** unit **Telos Asset Management**, leading to the formation of subsidiary Atalaya Capital Telos. Last year, Atalaya also increased its investments in commercial real estate. ❖

Hedge Fund Team Splits From CPMG

A fast-growing hedge fund that invests in natural-resource businesses has spun off from longtime alternative-investment manager **CPMG**.

Two of CPMG's three top investment professionals, **Ryan Schedler** and **Bradley Shisler**, left the Dallas firm around yearend to form **Condire Investors**, also of Dallas. They had joined CPMG in 2012 and launched a vehicle called Condire Resource Master Partnership the following year.

That fund, which now has \$450 million under management, takes long and short positions in energy, precious-metals and mining companies while employing little leverage. Although it has been closed to new investors since 2018, the fund has more than doubled its assets since then amid inflows from existing limited partners and strong performance.

There's no word on whether Condire's management team plans to reopen the fund to outside investors. But the new firm maintains a relationship with the fund's longtime placement agent, **Old City Investment** of New York — a possible indication that Condire plans to raise fresh capital for new or existing vehicles.

Condire also runs a small fund called Silver Teal largely on behalf of a single client. That vehicle, which had \$39 million of gross assets on Sept. 30, has a narrower investment focus than Condire Resource Master Partnership.

It isn't clear what prompted Condire's management team to split from CPMG, other than the fund's rapid growth in recent years. CPMG runs nearly two dozen private equity and hedge funds, which together had some \$3.2 billion of gross assets at yearend 2019. Nearly a third of the total was managed in a vehicle called Yellow Warbler, which like most of the firm's other funds is named for a bird.

Before joining CPMG, Schedler worked at **Trellus Management** as an analyst, while Shisler was a principal at private equity firm **Willis Stein & Partners**. Condire has a staff of about seven, including newly hired director of operations **Scott Crowell**, who worked at Dallas hedge fund shop **Cloverdale Capital** before it shut down last year. **Abby Gallivan** oversees investor relations at Condire.

The departures of Schedler and Shisler leave **Kent McGaughy** as CPMG's sole managing director. Around yearend 2019, the only other CPMG equity owner, **James Traweek**, exited his 25% to 50% stake in the firm and left the business.

Traweek, who had been with CPMG since 1995, has since started a Dallas firm called **Five Talents**. In the fourth quarter, it was managing some \$86 million of Traweek's family money via a fund he appears to have separately launched in 2017. In

October, he raised \$3.2 million for an entity called Five Talents Acquisition.

CPMG was founded in 1972 by **Edward "Rusty" Rose 3d**, a former owner of the **Texas Rangers** professional baseball team. He died in 2016. ❖

Quantix Tees Up Dual Offerings

Quantix Commodities is lining up additional capital for its first hedge fund while also bringing in seed money for a second vehicle.

The Greenwich, Conn., firm started trading the first commingled fund under its absolute-return Quantix Commodities Alpha program on Jan. 1 with \$25 million. The vehicle is set to take in \$100 million more from two investors by the end of the first quarter. The operation also plans to start trading a commingled take on its long-only Quantix Inflation Index strategy on Feb. 1 with \$13 million from a single investor.

That would come on top of some \$640 million that Quantix already runs.

Quantix Commodities Alpha, also known as QCA, had previously been available exclusively in separate-account format. That component started trading in July 2019 with \$50 million of seed capital from **Finance Michigan** affiliate **Trowbridge Trading**.

Finance Michigan, which also trades commodities on a proprietary basis, wrote another sizable check to Quantix last year.

QCA takes long and short positions in futures on products including gold, oil, sugar and grains. In doing so, the market-neutral program often takes the bearish end of soon-to-expire contracts while building bullish positions in longer-dated ones.

QCA gained 14.1% in 2020 with a Sharpe ratio of 2.2. Apparently attracted by low volatility, one investor opened a \$500 million separate account under the QCA strategy in October.

Quantix Inflation Index, which Quantix refers to as QII, is designed to hedge the effects of inflation through bullish commodities-futures trades. It reflects a view that demand for such plays is increasing as central banks worldwide continue to print loads of money in response to coronavirus-induced economic weakness.

The commingled vehicle's initial investor, described as a fund-of-funds operator, at first tapped Quantix to develop a customized commodity index based specifically on inflation risk in its own multi-manager portfolio. But the two sides wound up striking a deal that allows the client to market the product to its own investors while giving Quantix the ability to shop it to outside limited partners as well.

Quantix was founded in 2018 by chief investment officer **Don Casturo** and portfolio managers **Daniel Cepeda** and **Tom Glanfield**. Casturo and Cepeda most recently worked in **Goldman Sachs'** commodities-trading unit, which also was among Glanfield's earlier workplaces.

Rounding out the investment team is analyst **Michael Steele**, who previously spent time at **Bloomberg**. **Dan Cole**, previously of **Hutchin Hill Capital**, oversees business development and investor relations. ❖

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DGV Pitches Revenue-Sharing Class

Systematic-trading specialist **DGV Solutions** is winding down one fund while launching another with favorable fee terms for early investors.

The Minnetonka, Minn., firm, led by **O'Connor & Associates** alumnus **Jonathan Havice**, is returning capital to limited partners in its DGV Multi-Factor Fund after several years of lackluster returns. At the same time, it has just started raising capital via a founders share class for DGV Dynamic Fund, which began trading this month. The new vehicle employs a mix of systematic strategies including equity relative value, tactical trading, commodity relative value and tail-risk hedges.

DGV, which had \$866 million under management on Jan. 1, has earmarked \$150 million of capacity for the founders class. In exchange for a two-year lockup, investors will pay discounted fees equal to 1% of assets and 10% of gains. In addition, the manager will share with those limited partners a portion of the annual fee revenue it collects.

"Investors in the class will receive 15% of the revenues generated by the fund for seven years in exchange for their early support and agreeing to [the] lockup," Havice wrote in a note to clients last week.

Each of the strategies employed by DGV Dynamic Fund have been managed for separate-account clients and other DGV vehicles for a couple of years, Havice noted.

"The Dynamic Fund is a vehicle to bring them all together in place," he wrote. "Had the trading results of each of the strategies been aggregated into one vehicle ... it would have produced a 24.5% return in 2020."

DGV Multi-Factor Fund, which launched in April 2017, had a short-volatility bias. Not surprisingly, it lost money amid last year's pandemic-induced volatility, dropping 4.2%. Since inception, the fund's annualized return was minus-0.6% at yearend.

"This was disappointing relative to our ex ante expectations," Havice wrote. "However, given the fund's predominant focus was on extracting the volatility risk premium across a broad range of asset classes and geographies, with a [half] turn of leverage, it was not a bad result in the face of the volatility shocks experienced during this time period."

Proprietary capital that DGV had been managing in the Multi-Factor Fund is now being invested through the Dynamic Fund, the firm told investors.

Havice, who holds the titles of president and chief investment officer, founded DGV in 2014. After cutting his teeth at O'Connor, a derivatives-trading pioneer acquired by **UBS** in 1998, he held senior investment roles at **Interlachen Capital** and **Jeffrey Slocum & Associates**. ❖

Planning Your Travel Schedule?

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Connective Joins 2020's Big Gainers

Equity investor **Connective Capital** produced its strongest returns ever in 2020.

The firm's flagship fund, Connective Capital 1, finished the year up 33.3%. Its only other vehicle, Connective Capital Enhanced Exposure Strategy, booked a 58.3% gain.

The main fund takes a market-neutral approach, with Connective Capital Enhanced Exposure using more leverage to maintain a net exposure of up to 50%. Both invest in the shares of potentially disruptive businesses in areas including technology, healthcare and energy.

A good portion of the funds' profits have come from short positions. Connective is looking at betting against companies involved in clean-energy production, businesses with exposures to blockchain technology or bitcoin, and special-purpose acquisition companies — areas that experienced booms over the past year.

The Palo Alto, Calif., firm also has heightened its marketing efforts in hopes that last year's gains will translate to increased interest from investors. Both funds beat the HFRI Fund Weighted Composite Index's 2020 return of 11.6%. By comparison, the Nasdaq Composite Index gained 43.6% and the S&P 500 Total Return Index was up 6.3%.

The flagship fund, which launched in 2003, was producing an annualized return of 9.2% as of October. Connective Capital Enhanced Exposure, which launched in 2007, was running an annualized gain of 10.3%.

Connective runs about \$58 million overall, split about evenly between the two funds.

Portfolio manager **Rob Romero** heads a professional staff of about a half-dozen. He previously led a firm called **Connective Capital Ventures** that invested in early-stage technology companies. In addition, he worked at **AOL** and **Cisco Systems**.

Connective's staff also includes co-portfolio manager **Thomas Hor**, who arrived in 2011 from **Natura Capital**, and senior researcher **Tao Long**, who came on board in 2012 from **Hysta**. ❖

Critic ... From Page 2

during the same period.

Lack said that if the fund proves successful, he might begin marketing it in a year, though not as a hedge fund. And he's unlikely to impose traditional hedge fund fees, which he has long argued are almost always unjustifiable.

Even so, there's a touch of irony in Lack's move. In 2011, he authored "The Hedge Fund Mirage," which makes the case that managers enrich themselves at the expense of investors.

"If all the money that's ever been invested in hedge funds had been put in Treasury bills instead, the results would have been twice as good," he wrote.

Lack formed SL Advisors in 2009 following 23 years at J.P. Morgan, where he directed more than \$1 billion to hedge funds through two private equity vehicles. ❖

BlockFi Enters Crypto Trading Biz

BlockFi, a firm best known for lending against its customers' cryptocurrency holdings, has started a trading desk.

The Jersey City, N.J., operation formally launched the desk this month after a soft opening that saw it carry out trades totaling \$300 million in December. Those exchanges, involving a small number of counterparties, typically totaled \$1 million to \$10 million apiece.

BlockFi plans to boost its monthly trading volume to \$1 billion before long, funding the activity entirely out of its own inventory. On the other side of the trades would be hedge fund firms, other types of institutions and wealthy individuals.

BlockFi initially is focusing on trades of bitcoin, ether and Litecoin. It also could deal in other assets at the request of trading counterparties. The company has access to some \$6 billion of cryptocurrency holdings via interest-bearing accounts it manages for retail investors.

The trading desk, which is open on an around-the-clock basis, has just a few staffers. The plan is to build a team of 15 to 20 in the U.S. and Asia in the coming months.

The unit is led by director of institutional services **Yevgeniy Feldman**, who joined BlockFi in 2019. He previously originated and structured loans backed by illiquid assets including hedge fund stakes at **Bank of America**.

David Olsson fills a sales role as head of institutional distribution. He joined in May from a wealth-management unit at **Credit Suisse** that caters to ultra-rich individuals.

The trading unit's formation comes amid a rapid expansion for BlockFi. Last month, the firm struck a deal to begin lending U.S. dollars secured by bitcoin that institutional clients of **Fidelity Digital Assets** keep in custody with that operation. And in October, it arranged to become a counterparty for investors trading bitcoin futures and options via **CME Group's** Chicago Mercantile Exchange.

BlockFi launched in 2017 and got its start by writing loans to retail holders of digital assets. It now conducts that business in more than 40 states.

BlockFi is led by founders **Zac Prince** and **Flori Marquez**. Prince, the firm's chief executive, counts **Katapult** and **Orchard Platform** among his former employers. Marquez previously was a portfolio manager at **Bond Street** and spent time at **Oak Hill Advisors**. ❖

Banner ... From Page 1

an unidentified U.S. wealth manager.

The banner year for Fundana and A.W. Jones helps make a fresh case for the value of multi-manager operations with long experience vetting stock-pickers through multiple market cycles, industry pros said. The volatility triggered by the pandemic is generally believed to have widened the gulf between the top- and bottom-performing hedge funds.

In its pitch to investors, for example, Fundana has been

emphasizing its access to the most talented managers, as well as its extensive due-diligence process and ability to negotiate favorable fee terms. Fundana typically pays management fees that are 0.5% to 1%, which are lower than a manager's standard fee, investors have been told.

"I think talking about a consistent research process, lack of team turnover, understanding sectors and the ability and hunger for emerging managers to outperform ... is what a firm like Fundana has been able to do," a source said.

The fund-of-funds sector shrank dramatically in the wake of the 2008 market crash amid investor complaints about paying a double layer of fees for lackluster performance. Research from **Jefferies'** capital-intro unit shows global fund-of-funds assets totaled about \$650 billion at the start of 2020, down from a peak of nearly \$800 billion in 2007.

For fund-of-funds operators to add value, they must demonstrate an ability to cut costs for limited partners while also offering flexibility to customize hedge fund portfolios, Jefferies wrote in a report last year.

Funds of funds "used to primarily serve as an access point for asset owners who had a hard time gaining entry into popular hedge funds," the report said. But today "they are much more customized in providing bespoke solutions to clients."

Fundana's Prima Capital Fund typically has positions with 20 to 25 managers at a time, with U.S. sector-focused stock-pickers accounting for 50% to 60% of its portfolio. The roster includes new and emerging managers as well as fund operators running up to \$2 billion.

Fundana added new positions with nine managers last year, despite the difficulty of performing due-diligence reviews because of travel restrictions tied to the pandemic. The firm typically limits first-time investments to 0.6% to 1% of the fund's overall assets — translating to checks of \$5 million to \$10 million per manager.

A.W. Jones made just one new investment last year, down from an annual average of two to three. Indications are that chief investment officer **Robert Burch** has been largely satisfied with the performance of the fund's current stable of managers.

"The barrier to entry is a high bar right now to find a new fund that is better than something [a fund of funds] has already," one source said. "That's a big part of it. Competition for capital is significant."

Another A.W. Jones vehicle focuses exclusively on emerging long/short equity managers. That strategy gained 26.7% to 30% in 2020, depending on the share class.

Fundana is led by co-founder and chief executive **Thomas Alessie**. Co-founder **Dariush Aryeh** is chief investment officer of Prima Capital Fund.

The fund's strong showing last year follows several years of uneven performance, including an 11.8% gain in 2019, a 5.1% loss in 2018, an 11.3% gain in 2017 and a 1.6% loss in 2016.

Fundana's investors include Swiss pension funds and bank wealth-management platforms. ❖

Element Sees Supercharged Recovery

Global-macro manager **Element Capital** is predicting an economic recovery far more robust than most economists' forecasts.

Via one of the firm's periodic research reports, issued in December, Element wrote that a surprising amount of accumulated savings at all income levels in the U.S. during 2020 is likely to flood back into the economy in the second quarter of 2021 and beyond, "thereby turbocharging what was already likely to be an explosive recovery."

While Element didn't provide a specific projection of economic growth, the report is significantly more optimistic than other recent predictions. **Bloomberg** in December surveyed 74 economists who predicted, on average, that U.S. gross domestic product would expand by 4% in 2021 and by 3.1% in 2022. That same month, the governors and presidents of the **Federal Reserve Board** projected growth of 3.7% to 5% in 2021 and 3% to 3.5% in 2022.

Element's forecast is heavily dependent on its analysis of the "enormous amount of pent-up savings" in consumers' bank accounts. Those savings in part reflect government stimulus programs put in place in response to the coronavirus pandemic. The firm said stimulus payments "sent personal income skyrocketing" even as global business activity slowed and as consumption in certain sectors collapsed. The report also cited the increasing availability of coronavirus vaccines.

While savings increases in the U.S. were skewed toward wealthier consumers, Element wrote that account balances also bumped up among the bottom 50% of American earners in the first half of 2020. Element attributed some of its findings to research by New York data and analytics company **Exante Data**.

"It's surprising to see those at the lower end of the spectrum accumulating any additional checking balances," the firm wrote. "Instead, while the absolute amount is small, even these lower decile consumers are accumulating additional balances, not shedding them. In a more benign 2021 economic environment, these consumers will also be much better positioned" to spend.

Element calculated that the total value of "excess savings" in the U.S. stood at \$1.4 trillion, or 6.2% of U.S. gross domestic product. The firm said that figure was unusually high in 2020 because the pandemic dramatically altered consumer behavior, slowing air travel, knee-capping cruise lines and reducing spending in other sectors.

As the U.S. and the world approach herd immunity from the coronavirus, those industries will rebound, the firm predicted, and the need for precautionary consumer savings will diminish.

Element is led by **Jeffrey Talpins**. The firm told investors early this month it would return \$2 billion of its client assets in an effort to focus on profits, the **Financial Times** reported. Element was managing \$18 billion roughly a year ago, when it returned \$3.6 billion to investors. Its hedge fund was up 18.8% in 2020. ❖

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president only under a narrow set of conditions. It also challenges the legality of some \$300 billion of dividends that the Treasury collected from Fannie and Freddie following their credit-crisis bailouts.

The court heard initial oral arguments on Dec. 9. One possible outcome: It could decide that the government already has been repaid, restoring the seniority of shareholders while allowing retained earnings to accrue to their benefit and allowing them to participate in a recapitalization that might take place in 2022. "Now the whole story turns to the ruling of the Supreme Court, which should be in May or June of this year," one source said.

"If the Scotus ruling goes in our favor, it will require the conservator to be a conservator. That is, no more raiding on the GSE," another source said, referring to government-sponsored enterprises. But, he added, a decision in the government's favor could result in a messy situation in which nobody would take any money out of Fannie or Freddie for 10 years but related warrants would expire in 2027. The agencies' preferred-stock agreements also would require restructuring.

While Treasury Secretary **Steven Mnuchin** and FHFA head **Mark Calabria** had vowed to move Fannie and Freddie into private hands, Biden has long been viewed as supporting continued government control.

In over-the-counter trading, the common shares of Fannie and Freddie have fully given back gains that followed the November election, when it seemed the Trump Administration plan might have more momentum toward its goal. Meanwhile, hedge funds including **Mountaineer Partners'** Mountaineer Partners GSE Opportunity Fund and **Muirfield Capital's** Muirfield GSE Fund have been betting on the agencies' junior preferred shares.

In marketing its fund early last year, Mountaineer was projecting a return of 50% to 100% over a year to a year-and-a-half. Acknowledging the potentially volatile nature of the play, the New York operation presented investors at the time with a "bear case" return of minus-50% and a best-case return of 200%.

It was hoping to raise \$100 million, up from \$25 million last April.

The Muirfield fund launched in December 2017. After a flat first month, it lost 17% in 2018 and gained 67.3% in 2019. In marketing the vehicle last year, Muirfield pegged the junior preferred shares of Fannie and Freddie as trading at 30% of their par values while predicting that they would gain value rapidly once the agencies exit conservatorship.

Marketing firm **Protocol Capital** still was shopping the vehicle to potential limited partners as of Dec. 8. Marketing materials at the time expressed confidence in the privatization process, referring to "a good prospect that Calabria will end the conservatorships before Biden takes office on Jan. 20th."

The fund had \$160 million under management at the beginning of this year. ❖

Risk-Transfer Bets Aid 400 Capital

A mix of opportunistic investments helped hedge fund manager **400 Capital** eke out a gain in 2020.

The New York firm's flagship 400 Capital Credit Opportunities Fund finished the year up 1.75%, propelled by a 2.75% rise in December, according to sister publication **Asset-Backed Alert**.

While some securitization-focused fund operators were able to log bigger gains in 2020, 400 Capital's showing beat the market as a whole. The HFRI RV: Fixed Income-Asset Backed Index, for example, has had a 12-month decline of 1.3%.

The exact source of last month's gain isn't clear, but the firm particularly had been making money on risk-transfer securities in the preceding months, chipping away at losses it was running earlier last year. In that area, the firm focused on the Class-B and Class-M pieces of deals issued under **Fannie Mae's** Connecticut Avenue Series label and **Freddie Mac's** Structured Agency Credit Risk brand.

At the height of the market's coronavirus-induced disruptions, when 400 Capital moved in, those securities were trading at spreads as wide as 1,100 bp over Libor. They since have returned to pre-virus levels around 275 bp.

The fund hadn't invested in risk-transfer bonds since 2017, deeming the potential returns too small. It also made money last year on new subprime auto-loan bonds from issuers including **CarMax** and **Santander Consumer USA**. Triple-B-rated notes from those deals are trading around 130 bp over swaps today, in from 800 bp in April.

The 400 fund has \$1.9 billion under management. It invests in a mix of asset-backed securities, residential and commercial mortgage bonds, collateralized loan obligations and high-yield corporate debt in the U.S. and Europe.

All told, 400 Capital has \$4.6 billion under management. Former **Bank of America** structured-product head **Chris Hentemann** started the flagship fund in February 2009, taking advantage of opportunities stemming from the market crash to book a 20%-plus gain that year and in 2010. The vehicle was up 7% in 2018 and 8.1% in 2019. ❖

Offering ... From Page 1

talk that the firm is shutting down, but others have said founder **Jeffrey Spotts** plans to relaunch the business. The

new vehicle could be part of that effort.

Spotts declined to comment on his plans.

It's unclear what legal actions Prophecy faces from limited partners over its investment with Broad Reach. What's known is that a fund-of-funds operator, **LyonRoss Capital**, has filed a lawsuit against Prophecy in **U.S. District Court** in New York. The suit alleges a securities violation, though the text of the complaint is under seal.

LyonRoss, a New York firm led by **Piers Playfair**, had \$186.5 million under management at yearend 2019 and was advising on another \$382.8 million. Other plaintiffs in the lawsuit against Prophecy include the **Piers Playfair Retirement Plan & Trust**, **Sussex Directories Seze**, **Timberdale Ltd.** and **Vladimir Kuznetsov**.

Before founding LyonRoss in 2007, Playfair spent about 12 years as a partner at alternative-investment firm **Bassini Playfair Wright**. He earlier worked at **BEA Associates** and **Salomon Brothers**.

Spotts, a former **Merrill Lynch** equity researcher, founded Prophecy in 2001. The firm hasn't updated its SEC Form ADV since December 2019, when it reported gross assets of about \$561 million as of Dec. 31, 2018.

A source said Prophecy Trading Advisors had \$10 million invested with Broad Reach, a Conshohocken, Pa., hedge fund operator founded by **Brenda Smith**. Federal prosecutors arrested Smith in August 2019 and charged her with six counts of wire fraud and one count of securities fraud in connection with the alleged Ponzi scheme. She is accused of stealing at least \$68 million by diverting capital that should have been used for investments to pay other limited partners, finance other businesses and cover personal expenses. Her case is pending trial.

Prophecy has said it didn't lose any money on its investment with Broad Reach. But last March, the firm informed investors that its auditor, **Deloitte**, had resigned and withdrew its 2018 opinion. Prophecy said it had no knowledge of Broad Reach's alleged fraud.

Prophecy reported that its flagship vehicle, Prophecy Trading Advisors, was up 1.2% year-to-date through March 6, 2020, following gains of 7% in 2019, 7.9% in 2018 and 7.6% in 2017. The same performance report showed that the fund hadn't had a single down month since its inception in October 2011. ❖

LATEST LAUNCHES

Fund	Portfolio managers, Management company	Strategy	Service providers	Launch	Equity at Launch (Mil.)
DGV Dynamic Fund Domicile: U.S. ← See Page 5	Jonathan Havice DGV Solutions, Minnetonka, Minn.	Equity: systematic, relative value and tactical trading		Jan. 1	

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initially focused on the systematic trading of futures and exchange-traded funds from 2012 to 2016. In between, he was head of systematic macro trading at **Marshall Wace** from 2017 until this month and head of research at **Florin Court Capital** from 2016 to 2017. Prior to his first stint at Millennium, Fischhoff spent time at Vienna-based **FTC Capital** and at Geneva-based **Pictet**. Millennium, headquartered in New York, has \$46.7 billion under management.

Brevan Howard Asset Management has hired a former **ExodusPoint Capital** staffer as a trading operations manager in New York. **Seth Cohen** started last month. He was a business manager in ExodusPoint's global fixed-income division from 2018 until September. Cohen's previous employers include **HedgeServ** and **Morgan Stanley**. **Bloomberg** reported this month that Brevan Howard's main fund gained 27.4% last year, its best showing since 2003, and that other funds run by the manager

did even better. The firm's assets have rebounded to about \$12 billion, up from \$6.4 billion in early 2019.

Moore Capital spinoff **Mane Global** has hired an analyst as it continues to build staff ahead of a planned \$1 billion launch. **Raymond Li** joined the New York firm this month from the **National Basketball Association**, where he had worked in a global strategy role since 2017. Li previously was an investment-banking analyst at **Evercore**. Mane, led by former Moore Capital portfolio manager **Rami Abdel-Misih**, plans to launch this year with backing from Moore founder **Louis Bacon**. It will employ a low-net strategy to invest in the stocks of consumer and technology companies worldwide.

Event-driven manager **Governors Lane** has installed **Bill Casey** as head of investor relations. Casey, who started this month, previously served as chief operating officer at **Marble Ridge Capital**, which shut down late last year following the arrest of founder **Dan Kamensky** on charges of fraud, bribery, extortion and obstruction of justice. Prosecutors allege

Kamensky tried to suppress bidding on shares of bankrupt retailer **Neiman Marcus** so he could buy them himself. Before joining Marble Ridge in 2016, Casey filled investor-relations or sales posts at **King Street Capital**, **J.P. Morgan**, **Bank of America** and **Morgan Stanley**. New York-based **Governors Lane**, led by **Isaac Corre**, managed \$1.8 billion of gross assets at yearend 2019. Its **Governors Lane Master Fund** gained 15% in 2020.

DGV Solutions hired an investment professional and expects to announce a new head of investor relations next month after parting ways with two employees. **Simon Liedtke** was brought on as a trading analyst after recently completing graduate school, the Minnetonka, Minn., operation wrote in an investor update last week. Co-head of trading **Tom Madden** and managing director **Michael Warsh** are no longer with the firm. Their plans are unknown. Co-head of trading **Joseph Richardson** takes over as sole head of trading. Madden arrived in 2014 from **Walleye Capital**, while Warsh joined in 2016 after working in a business-development role at the **Chicago Board Options Exchange**.

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Howard Kapiloff	Managing Editor	201-234-3976	hkapoloff@greenstreetnews.com
Michael Bodley	Senior Writer	201-234-3971	mbodley@greenstreetnews.com
Mike Frassinelli	Senior Writer	201-234-3964	mfrassinelli@greenstreetnews.com
James Prado Roberts	Senior Writer	201-234-3982	jpradoroberts@greenstreetnews.com
T.J. Federaro	Editor-in-Chief	201-234-3979	tfederaro@greenstreetnews.com
Mark Mueller	Deputy Editor	201-234-3994	mmueller@greenstreetnews.com
Ben Lebowitz	Deputy Editor	201-234-3961	blebowitz@greenstreetnews.com
Dan Murphy	Deputy Editor	201-234-3975	dmurphy@greenstreetnews.com
Jim Miller	Copy Editor	949-674-0295	jmiller@greenstreetnews.com
Michelle Lebowitz	Operations Director	201-234-3977	mlebowitz@greenstreetnews.com
Evan Grauer	Database Director	201-234-3987	egrauer@greenstreetnews.com
Mary E. Romano	Advertising Director	201-234-3968	mromano@greenstreetnews.com
Kait Hardiman	Advertising Manager	201-234-3999	khardiman@greenstreetnews.com
Joy Renee Selnick	Layout Editor	201-234-3962	jselnick@greenstreetnews.com

Visit HFA Website

Email: inquiry@greenstreet.com

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