

The **Alternative Investor**

**Wine,
Whisky
and
Watches**

**Performance
News
Trends
Regulatory updates**

Bordeaux Index's Matthew O'Connell writes about investing in wine and whisky (pg.15) and **Sotheby's** international specialist, **Benoît Colson**, takes a look at today's watch market (pg.11). While **AIMA's Tom Kehoe** makes a robust case for hedge fund investments (pg.9).



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

JANUARY HEDGE WAS ABOUT EQUITIES, CRYPTO, LATAM AND CHINA

January was an excellent month for hedge funds, with the **HFRI Fund Weighted Composite Index** up +2.8%. This was required after a somewhat lacklustre 2022 and was undoubtedly helped by a tailwind in equity markets and less talk about an imminent recession. For our more in-depth market review [click here](#).

Equity hedge was the strongest performing strategy in this environment, as the **HFRI Equity Hedge (Total) Index** rose +4.2%. **Energy, Value** and **Growth** all stood out, +5.4%, +5.1% and +4.7%, respectively. The worst performing was **Equity Market Neutral**, -0.1%.

Event driven also reaped the benefits of this tailwind, as the **HFRI Event-Driven (Total) Index** rose +3.6%. By some margin, the outperformer in this space was **Activist**, +8.5%, followed by **Special Situations**, +4.6%. **Merger Arbitrage** was, however, down -0.2%.

Macro was a more challenging environment, as central banks stood back from the brink, USD weakened and commodities pulled back, and the **HFRI Macro (Total) Index** rose only +0.3%. The outperformer was **Active Trading**, +2.1%, while the **Commodity** index, which had been so strong last year, was down -0.4%, as was **Systematic**.

Relative Value was up +2.0% in January, with most sub-strategies up somewhere between one and two per cent. The positive outlier was **Yield Alternatives**, +8.4%.

Regionally, most markets saw healthy returns. **LatAM**, in particular, stood out in January, up +6.3%, followed by **China**, +6.1%, as it opened-up and ended its Covid-Zero policy. However, the two regions to under-perform in January were **India**, -4.2%, and **Japan**, -1.0%.

Crypto funds were again posting very positive numbers, with the **HFRI Cryptocurrency Index** up +27.3% - the best-performing strategy for the month and making inroads into last year's -54% decline.

\$391bn

Total value of private equity exits in 2022

Source: Preqin

\$16bn

Citadel's net gains in 2022

Source: LCH

PE FUNDS CLOSE \$55BN IN JANUARY

Fundraisings were down 21.5% last year, according to **Preqin**. These have been tough fund times in private equity markets and yet the sector still managed to close around \$55 billion in January.

Blackstone alone closed two fund raisings at \$24.9 billion, including \$22.2 billion for **Strategic Partners IX**, making it the largest secondaries fund. **Blue Owl Capital** closed at \$12.9 billion, new **Enterprises Associates** \$6.2 billion and **TSG Consumer Partners** \$6 billion.

Given these difficulties, the likes of **Vista**, **Nordic** and **Clayton Dubilier & Rice** have increasingly chosen rolling closes to give them greater flexibility.

WARBURG PINCUS ON TRACK

Warburg Pincus' Global Growth XIV fund is on track to close at \$16 billion, **Reuters** writes, having already hit \$15.4 billion, which will make it the largest fund raise in the firm's history. This flagship fund will focus on pure play growth investing, from early growth to later-stage buyouts and special situations, across North America, Europe and Asia. Their previous Growth fund raised \$15 billion in 2018, generating a net IRR of 19.12% to June last year. Their previous largest fund was **Warburg Pincus Private Equity X** that raised \$15.1 billion in 2007.

PE TRADE SALES TOP 2022

Private equity exits were disappointing in 2022, falling 31% year-on-year as capital markets retracted on inflation and recession concerns.

The total value of exits in 2022 stood at \$391.4 billion, according to **Preqin** data. Of these, only 52 were by means of IPO, raising \$23.7 billion, with a paltry five in the final quarter. Secondary sales raised \$52.0 billion in 2022, the lowest figure since 2018.

Trade sales were, however, the primary exit strategy, accounting for \$302.5 billion during the year. Taking **S&P Global Market Intelligence** data, the largest exit was \$20.8 billion for **McAfee Corp**, followed by **Athenahealth Inc**.

PRIVATE WEALTH FAVOURS PE

A **Private Equity Wire European** investor survey has found private wealth to be the one group of investors where all respondents plan to maintain or increase exposures to private equity. These same investors like financials and energy sectors, as well as more esoteric strategies such as secondaries and distressed. Institutional investors and asset managers are slightly less keen on this space, saying they plan to reduce their exposure to private equity by 18% and 7%, respectively.

SCHWARTZ ARRIVES AT CARLYLE

Carlyle's search for a new CEO appears to be finally over after '**sounding out Wall Street bankers**,' writes the **Financial Times**, as well as ruling out internal candidates, with former **Goldman Sachs** President **Harvey Schwartz** taking on the role. Schwartz has agreed to a \$180 million package over five years. The private equity giant has been without a CEO since August last, when **Kewsong Lee** resigned, forcing co-founder **Bill Conway** to step in as interim CEO.

Upcoming Industry Events

16 February

Fund Intelligence Operations & Services Awards 2023 (New York)

21-22 February

Private Equity and Venture Forum (Beijing and online)

1-2 March

PEI Responsible Investment Forum (New York)

Click [here](#) to see all the listings

UPDATES (cont.)**MOVING UP A GEAR**

No surprises that last year was **Tiger Global's** *annus horribilis*. Everything **Chase Coleman III** touched during the year turned to dust as the business lost \$18 billion or 56% of its assets. January, however, was different with a change of fortunes as tech valuations rebounded and according to reports **Tiger Global Management** was up 2.1%.

2023 may yet see a more humble Coleman in the market, although whether the firm returns to its hyper-fast investing pace of old, which redefined tech investment (alongside **SoftBank**) - not necessarily in a good way - remains to be seen. Tiger Global and **Accel** are currently in talks to exit **Flipkart**, the Indian e-commerce business, in which they were an early backer, for around \$1.5 billion.

COMMITTED TO INNOVATION

CalPERS, the largest public pension fund in the US, is investing in *innovation and entrepreneurship* in investment management. To achieve this, it is partnering with two of its long-standing managers, **TPG** in its **NEXT** fund and **GCM Grosvenor** in the **Elevate** strategy, with \$500 million allocated to each.

The goal is to find the next generation of managers by providing *'better access to capital, resources and expertise to mitigate*

business risks and [allowing these investment managers to] prudently scale their firms.'

This move is in line with the pension fund's goal to increase investment into private markets, a move it sees as essential to bolster long-term returns. Private equity is currently CalPERS' best-performing asset class, an allocation that is in the process of being increased from 8% to 13%.

ELLIOTT MOVES INTO CRM

We have been waiting for **Elliott Advisers** to break cover. They had been quiet for too long and certainly didn't disappoint, announcing a multi-billion dollar stake in **Salesforce**, which may or may not turn into a nasty proxy fight.

In a statement, Elliott said it is looking to *'work constructively... to realise the value befitting a company of its stature.'* This move comes just a few weeks after Salesforce announced they were laying off 10% of the workforce.

Elliott is calling for fresh ideas and an *'overhaul'* of the board, particularly of those who have been around for a while and seen as too

closely aligned to the co-founder **Mark Benioff**.

The activist will put forward its own slate of directors, a move Salesforce has tried to head off with the appointment of three new directors to the board, removing two of the old guard - Benioff allies who had been on the board since 2003.

Other big-name activists with stakes include **Starboard**, which has called for the firm to tighten margins, and **Inclusive Capital**, which has a \$250 million stake.

DARKTRACE IN PLAY

Activist short sellers were out and about in January, with **Quintessential Capital Management** releasing a 70-page report on **Darktrace**, titled *'The dark side of Darktrace.'*

The market was spooked in the run-up to the release on 31 January, with the share price dropping 17%. It has since regained this and more following the announcement of a £75 million share buyback.

The New York hedge fund accuses Darktrace of misrepresenting its accounts by *'channel stuffing'* a term for adding future revenues to the current books through *'phantom clients.'*

It is all colourful stuff with *'companies in offshore jurisdictions run by individuals with ties to organised crime, money laundering, and fraud.'* Darktrace calls this *'unfounded inferences.'*

BEAUTY & THE BEAST

After accusing **Walt Disney** of underperforming, overpaying management and strategic errors in direction, **Nelson Peltz** has declared his proxy fight over and has withdrawn his board candidate.

Disney had stated Peltz *'does not understand Disney's businesses and lacks the skills and experience to assist the board in delivering shareholder value in a rapidly shifting media ecosystem.'*

Disney believes Peltz should

give the new CEO **Bob Iger** time to get the house in order, having only been in the seat since November 2022 and has already unveiled a restructuring, cost cutting and significant layoffs.

With a \$900 million stake in the business, Peltz has made it clear that he is no fan of Iger, but speaking to **CNBC**, he claims this is a victory, with Disney planning *"to do everything we wanted them to do."*

HOW DO YOU FUND GROWTH?

As part of **Wales Week London 2023**, on 2 March PwC is hosting an evening event for London-based investors to hear about the **investment opportunities in South East Wales**.

PANEL DISCUSSION

Mike Magee (*moderator*)

Partner, UK Financial Services Deals Leader, PwC

Jody Tableporter

Director, British Business Bank

Rhys Thomas

COO, CCR

Jenny Tooth OBE

Executive Chair of UK Business Angels Association & Co-Chair of Women Angel Investment Task Force

Rhian Elston

Investment Director, Development Bank of Wales

GUEST SPEAKER

Kevin Gardiner

*Global Investment Specialist,
Rothschild & Co Wealth
Management*

If you are interested in attending this event on 2 March 2023 at PwC - More London click this [link](#) or email gavin.barnes@pwc.com

UPDATES (cont.)**BONFIRE OF THE VANITIES**

One of the world's largest business conglomerates, **Adani Group**, has come under ferocious attack from short-seller **Hindenburg Research**.

In a damning report titled ***Adani Group: How the world's 3rd richest man is pulling the largest con in corporate history***, Hindenburg Research has torn **Gautam Adani** and his Group apart.

This story has everything, big money, sharp practices and an underdog, Hindenburg, taking on the global titan - although nobody could describe Hindenburg founder, **Nate Anderson**, as an underdog, more of a tenacious rottweiler who has spent the past two years investigating Adani. It has been one of the most searched stories on the internet of the past few weeks and was number one on **Bloomberg**.

Adani Group's share price fell 35% in the five days after the report was released,

forcing the Group to call off a \$2.4 billion share sale. There has also been a certain amount of contagion on banks and other firms with related investment exposures.

Accusations relate to what Hindenburg claims is *'brazen stock manipulation,'* concealed ownership of offshore entities and *'virtually non-existent financial controls'* at Adani Group.

You have to be exceptionally confident to come out with such accusations, especially when taking on one of the world's wealthiest individuals. But Hindenburg has form, with a successful track record of finding what the firm describes as "man-made disasters."

Adani Group responded initially with an 18-page presentation, titled ***Myths of the short seller***, in which it states the allegations of fraud are *'devoid of facts'* and has threatened to sue, a move welcomed by Hindenburg as *'meritless.'*

This was followed by a 413-page rebuttal, which Hindenburg derided as *'obfuscation,'* adding that *'only about 30 pages focused on issues related to our report.'* Indian regulators are already probing offshore fund holdings of Adani Group and are, according to sources, *"studying the report."*

These accusations have been a severe reality check for Adani, dropping him to 16th on the **Forbes** rich list at time of writing.

This story has a long way to run and plenty of legal action to come - it is a book in itself, although you will have to be a brave journalist to pick this one up.

It is worth [signing up](#) for Hindenburg research just to keep up.

Adani Enterprises Ltd (ADEL): 7 February 2022 to 6 February 2023

Source: Investing.com

**SHORTS CAN BE A RIGHT PAIN**

After a largely successful 2022, the dangers of shorting were only too apparent in January as investors experienced a significant short squeeze.

According to **Goldman Sachs** analysis, the 50 most shorted stocks in the **Russell 3000** index were up 15% to 27 January.

Some of the most popular shorts were painfully, for these short investors, the best performers, with **Beyond Meat** up over 30% in January, **Bed Bath & Beyond** up 16% and **Carvana** up over 100%. As a result, this meme squeeze forced managers to de-risk and short cover.

Today's best-known short seller, **Jim Chanos**, said that many of these names are long *"dead in the water"* and Carvana and Beyond Meat are heading for bankruptcy. Not that this makes life any easier for him short-term.

UPDATES (cont.)

CITADEL'S RECORD YEAR

While macro got most of the plaudits in 2022, this was actually the year of the large multi-strategy funds.

The well-publicised **LCH** release of all-time top-performing funds showed **Citadel's** extraordinary 2022 performance, with net gains of \$16 billion (and further gains already this year). This figure is the largest-ever annual gain by a hedge fund manager and significantly ahead of second-placed **DE Shaw's** \$8.2 billion. In third place was **Izzy Englander's Millennium** with \$8 billion. Turning to the activists, **Elliott Advisers** was placed

seventh, with \$2.8 billion.

Rick Sopher, Chairman of LCH, described 2022 as "a year of great divergence," with big winners and losers. You saw this with Citadel on one side, but on the other, the overall gain for the top 20 best-performing managers was the smallest since 2016. Several high-profile equity-focused managers experienced their biggest draw-downs since 2008, including **Lone Pine's** \$10.9 billion net loss.

Hedge funds	Portfolio Managers	Net gains since inception (USD billions)	Net gains in 2022 (USD billions)
Citadel	Ken Griffin	\$65.9	\$16.0
D.E.Shaw	Various	\$51.9	\$8.2
Millennium	Israel Englander	\$50.4	\$8.0
Bridgewater	Ray Dalio	\$58.4	\$6.2
Brevan Howard	Alan Howard	\$28.1	\$5.1
Egerton	John Armitage	\$21.6	\$4.1
Elliott	Paul Singer	\$42.1	\$2.8
Point 72	Steve Cohen	\$30.1	\$2.4
Caxton	Bruce Kovner	\$19.8	\$2.1
Appaloosa	David Tepper	\$32.3	\$1.6
Farallon	Tom Steyer/ Andrew Spokes	\$33.1	\$0.5
Davidson Kempner	Martin Davidson	\$19.2	-\$0.4
King Street	Francis Blondi	\$18.7	-\$0.7
Baupost	Seth Klarman	\$33.2	-\$1.5
Och Ziff	Daniel Och	\$29.9	-\$1.8
Viking	Andreas Halvorsen	\$35.0	-\$3.0
TCI	Christopher Hohn	\$28.4	-\$8.1
Lone Pine	Stephen Mandel	\$31.3	-\$10.9

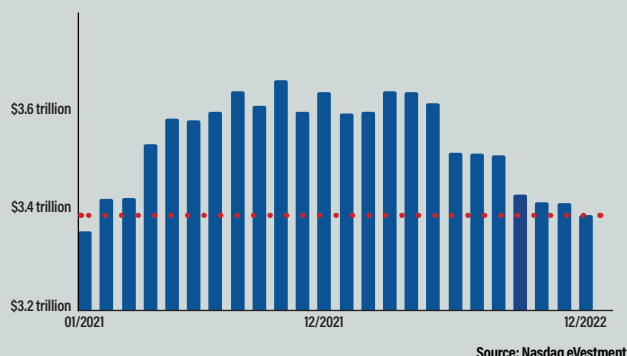
Source: LCH Investments NV estimates/ gains for Soros and Bacon frozen when outside capital returned

SHRINKING INDUSTRY

Nasdaq eVestment AUM data shows \$27 billion left the hedge fund sector in December, taking negative flows for the year to \$111 billion.

By the end of the year, total sector AUM stood at \$3.38 trillion, down from \$3.64 trillion a year earlier. It is now back to where it was in January 2021.

Multi-strategy funds, in particular, suffered in December with a \$7.3 billion net draw-down, which is surprising given the strategy's success during the year. However, this could be the result of end-of-year portfolio rebalancing. Equity Long-Short was next, losing \$4.7 billion. In fact, not one strategy saw net inflows for the month, with Convertible Arbitrage the least bad, seeing outflows of \$0.6 billion.



UNDERWHELMING LAUNCHES

Hedge fund launches continued to dry up in 2022.

According to **HFR** data, there were only 71 new launches in Q3, compared with 132 in the same quarter a year earlier. You have to go back to Q4 2008 to find a worse quarter, when only 56 funds launched. Q2 2022 was only marginally better, with 80 launches. The 12-month period to the end of Q3 saw the sector shrink, with 449 hedge funds launched and 544 liquidated. Confidence is certainly low, with managers putting launches on hold or closing uneconomical funds.

BRIDGEWATER APPOINTS FIRST FEMALE CIO

There are encouraging developments for the sector over at **Bridgewater**, which has just named **Karen Karniol-Tambour** as its first female co-CIO. This move comes just a few months after **Ray Dalio** gave up control as part of the firm's succession planning. She joins **Greg Jensen** and **Bob Prince** in this role. Karniol-Tambour is a long-time member of the Bridgewater team, having joined in 2006 after leaving college. She quickly rose through the ranks and most recently was co-CIO of sustainability, having previously run Research.

UPDATES (cont.)**TARGETING FAST GROWTH COMPANIES**

Steven Bartlett, well-known entrepreneur and star of **Dragons' Den**, has launched a high-profile VC fund targeting fast-growth companies that have *'the potential to become Europe's next unicorn.'* The fund is called **Flight Story Fund** and is investing in six emerging sectors: blockchain, biotech, health and well-being, commerce, technology and space.

Speaking to **Sky**, Bartlett said, *"our goal is to make this the best performing venture capital fund in Europe over the coming years and we'll continue to add more of the most successful European founders - as investors - to our Fund as we go."*

This is already backed by the likes of **Alan Barratt** from **Grenade** and **Christian Angermayer**, a biotech investor. Watch this space.

**PROPERTY SLOWDOWN**

We rarely write about property funds, although we are looking to change this during the year. **Bloomberg**, in particular, has been writing consistently about a global slowdown in this space as rising rates, volatile markets and pension funds rebalancing portfolios take their toll. We have already seen investors looking to pull funds from US funds, most notably **Blackstone's Real Estate Income Fund** last year, and on a recent analyst call we heard Blackstone Property Partners, a \$73 billion institutional real estate offering, is also facing \$5 billion redemption requests. This is not new to the UK, where property funds have been limiting withdrawals, with both **BlackRock UK Property Fund** and **M&G's Secured Property Income Fund** delaying redemptions.

**INFLATIONARY CONCERNS**

The **Campden Wealth European Family Office Report 2022** reveals some interesting findings. Perhaps unsurprisingly, among European family offices, the chief concern is the corrosive impact of inflation on their portfolios, followed by geopolitical risk and rising interest rates.

To counter inflation, family offices have been increasing their exposure to equities (49%), real estate (33%) and commodities (33%). Private equity is the most popular asset class for new investment, with 41% of European family offices looking to increase their investments in private equity funds and 39% to venture capital. There is also a big leaning to tech investments, regardless of how the sector performed last year, mainly to green tech, with 53% of those invested

in this space looking to up their allocation. Other popular tech exposures are healthcare, digital transformation, fintech and watertech. Crypto is on their radar, but there are still overriding concerns about regulatory oversight and the relative immaturity of the market.

From the investment perspective, it is important to note the move to sustainable investments, with two-thirds of European family offices engaging in this, with the average investment totalling 36% of their portfolios, a figure they are looking to grow to 43% over the next five years.

As an aside, a surprising statistic was only 66% of European family offices have succession plans in place, with around half of these plans deemed *'relatively casual.'*



The Long-Short Podcast

Your window to the alternative investment universe

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Teun Johnston
CEO of Man GLG



Sebastian Mallaby
Paul A. Volcker Senior Fellow in International
Economics, Council on Foreign Relations
Author of The Power Law and More Money than God



Nadia Humphreys
Co-Rapporteur Platform for Sustainable Finance
European Commission



Dan McCrum
Investigative reporter at the Financial Times
Author of Money Men



For more information visit aima.org/media/the-long-short.html

MARKET OPINION**“IT DOES EXACTLY WHAT IT SAYS ON THE TIN!”**

✪ **TOM KEHOE, GLOBAL HEAD OF RESEARCH AND COMMUNICATIONS, AIMA** ✪

Viewers of my generation and older will recall the above slogan being used in an advertising campaign for a wood stain and dye manufacturer back in the early 1990s. In fact, the slogan became so popular that the same manufacturer is still using it in advertisements and online media today, to the extent that it has become a common idiomatic phrase.

Thinking about this phrase also recalls the value proposition that an allocation to hedge funds can offer to investors. There is no escaping the fact that the past year has been tumultuous, both geopolitically and economically.

From a performance perspective, leading stock markets including the S&P 500 index and the MSCI World ended the year down around 20%. The fortunes of 60/40 portfolio investors (for a long time regarded as the cornerstone of investing) have not fared much better, also losing close to 20% of investors' money by the end of 2022.

By comparison, an allocation to hedge funds would have yielded you a gain of 1%, (where performance is measured on an asset weighted basis) according to Hedge Fund Research. Or to put another way, hedge funds gained at least 20% more than a 60/40 portfolio investment.

This is only half the story. There was a wider-than-usual disparity in performance among hedge fund strategies; macro, trend-following and many multi-strategy funds stood out as the best performers, while long-biased equity long/short funds suffered.

Recalling the aforementioned iconic slogan, it's worth examining the collateral benefits of hedge funds.

Looking at previous market corrections, hedge funds have consistently demonstrated their ability to manage these periods for investors better than anyone else. Prior to this period, the last time the market experienced a sharp correction was the onset of the Covid-19 pandemic in the spring of 2020.

At that time, leading stock markets fell 20%, while 60/40 portfolios lost 10%.

At the same time, hedge funds on average fell by 6% and ended the year up 19%. Going back to 2008 further demonstrates the resilience of hedge funds.

Had you been invested in stock markets, you would have lost 50% or greater, while the average hedge fund lost 20%, and recovered its losses by October 2010 whereas the average balanced fund did not recover its losses until March 2013.

An allocation to hedge funds serve a range of purposes in investors' portfolios, extending beyond alpha generation. Events of the past year are a timely reminder to investors

of the value of capital preservation and reassert the value proposition of hedge funds.

Amid considerable and broad-based drawdowns, hedge funds have not only performed relatively well for their investors but have materially outperformed too. Investors are taking note, allocating to hedge funds with interests across public and private markets.

Such an investment can provide them with more flexibility to protect and

grow their capital. Integrating hedge funds into the wider investment portfolio should provide investors with returns that are uncorrelated to returns derived from investing in bonds and equities.

With most forecasts for the coming 12 months predicting market volatility to continue as well as further monetary tightening to curb the threat of prolonged double-digit inflation, the benefits of investing in hedge funds will continue to attract capital.

“Amid considerable and broad-based drawdowns, hedge funds have not only performed relatively well for their investors but have materially outperformed too.”

Tom Kehoe, AIMA



Tom Kehoe
Global Head of Research and
Communications, AIMA

NAVIGATING FROM A TO B

For alternative managers, 2022 was a challenging year. It did not matter if a manager was in hedge funds, real estate, private equity, or crypto, it was a struggle.

Performance for many could have been better, liquidity was often constrained and, in some cases, non-existent, and fundraising an uphill struggle.

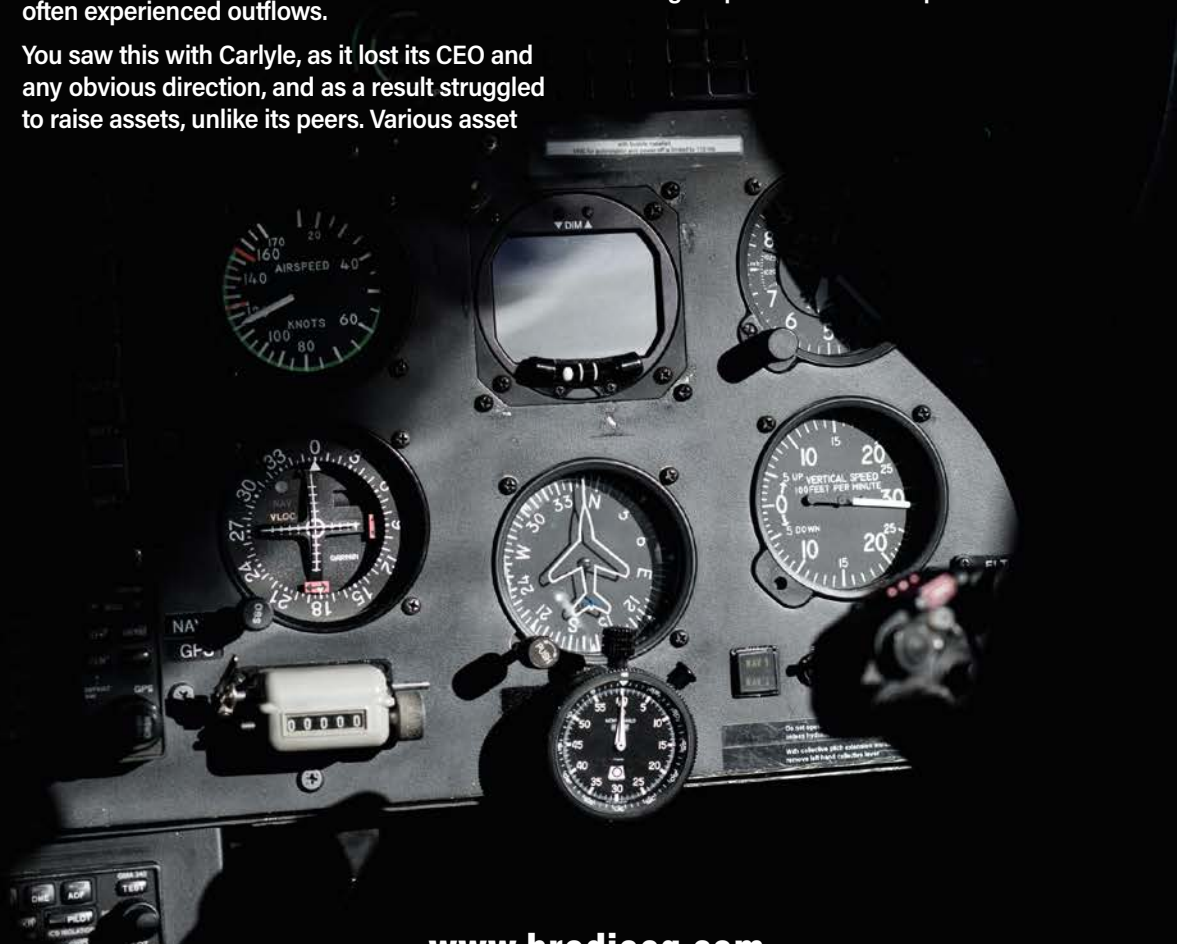
What 2022 showed was the importance of having a strong brand and clear direction. Those managers with dominant brands and a real sense of purpose saw the bulk of the asset inflows. Even when times were tough, investors stuck with the big brands or increased their investments.

However, those managers that communicated poorly or failed to position themselves effectively could not guarantee brand loyalty and all too often experienced outflows.

You saw this with Carlyle, as it lost its CEO and any obvious direction, and as a result struggled to raise assets, unlike its peers. Various asset

managers were being pilloried for being either too ESG or too little ESG focused and lost assets. In hedge funds, Bridgewater may still have its leading position but is being caught by the likes of Citadel and Millennium, the all-singing, all-dancing, multi-strategy managers; hence Bridgewater 2.0, post-Dalio. In crypto, funds struggled with credibility after the FTX fallout, just as the sector was gaining institutional traction and now it is about rebuilding that confidence, which goes far beyond the inflows we have been seeing so far in 2023.

Building a brand really should not be complicated. It is about showing, or providing, a sense of direction, clearly and concisely, visually and verbally, which then flows across all elements of a business. It is this that sets a manager apart from the competition.



GUEST ARTICLES

PASSION AND PLEASURE CONTINUES TO DRIVE THE WATCH MARKET

✪ **BENOÎT COLSON, DIRECTOR, INTERNATIONAL SPECIALIST, SOTHEBY'S** ✪

We are constantly hearing contrasting views on today's second-hand watch market. On the one hand, after a couple of years of intense enthusiasm and euphoria, there is chatter about the market going through an unprecedented crisis, with some even predicting its demise. Yet on the other, there are those who believe the market has a bright future ahead, with plenty of growth opportunities.

Why such a difference of opinion? Simply put, they are not talking about the same topic.

The first group refers to a particular market segment: contemporary sport watches trading on the grey market. For example, Mr. Smith buys such a watch from an Authorized Dealer, who flips it immediately to

another person, either a dealer or a private, who sells it on, etc. Until recently, there was enough demand and margin for a few people to make some money and with the continuous price increase helping, this pattern could continue.

“Remember at the top of a bubble, everybody is a dealer and everybody looks like a genius...”
 Benoît Colson, International Specialist, Sotheby's

There is nothing new here, but the critical shift we have seen over the last couple of years has been the dramatic increase of players in this field; as a result, this became the focus of the second-hand market, which overtook and overshadowed other segments. Ultimately, it went too high, too quickly. Remember at the top of

a bubble, everybody is a dealer and everybody looks like a genius - money was easy for newcomers, and everybody wanted a piece of the cake.



PATEK PHILIPPE REFERENCE 2499

© SOTHEBY'S

GUEST ARTICLES (cont.)**PATEK PHILIPPE 'SAATCHI EDITION'**

© SOTHEBY'S



This speculation was fed by people lacking two key qualities required by any investor, nerves and knowledge. They mostly had little or no interest in watches – it was an opportunistic trade. Consequently, they lacked a real understanding of the market, the segments and their respective sizes, the products and there was no attachment or passion; a watch was just an asset to be sold with a quick profit at no risk, or at least they thought. The result has been a market correction in this space.

These market participants and their investments have overshadowed other parts of the sector that have continued to grow steadily and see higher demand. Here we are seeing two very encouraging trends. The first is the continued growth of the traditional market, namely vintage and more recently neo-vintage watches. The second is that with incredibly high prices requested for standard contemporary pieces, some collectors have started to acquire rarer, more complicated, safer-to-wear pieces for a much lower investment. This has resulted in greater demand for timeless, historically important, 'meaningful' watches across all price segments. Many of these same timepieces have seen their value quietly growing, sometimes by over 50%, particularly over the past 36 months.

To take a few examples from some of our 2022 auctions:

A 1957 Patek Philippe Perpetual calendar chronograph 2499 second series (see picture on previous page) in pink gold double signed by Milano-based retailer Gobbi, sold for a world record price of HKD 60,265,00 (EUR 7,027,000). The same watch was sold in 2007 for CHF 2,736,000.

The market for high-quality vintage sport Rolex is in rude health, with several record prices achieved in the last few months. This includes the Rolex Daytona Paul Newman (see picture over page) in 18k gold reference 6264, that was made in 1970 and recently sold for over GBP 1 million.

In the neo-vintage and even contemporary market, some rare and special pieces have seen their value going

through the roof. One example is the Patek Philippe 3940 (pictured above) in pink gold with a brown dial made for the Patek Philippe Grand exhibition in London in 2015, which sold for a record price of CHF 214,000.

While it is difficult to predict the future in any market, the mid and long-term trend in our world is the same as ever: quality, rarity, historically interesting,

“The entry ticket for a Patek Philippe split-second chronograph perpetual calendar or a high-quality vintage Rolex Daytona does not encourage newcomers as a starter.

Benoît Colson, International Specialist, Sotheby's

GUEST ARTICLES (cont.)

and timeless pieces from blue chip brands. This has seen a return to the basics, such as a precious metal complicated Patek Philippe; a quality vintage sport Rolex or Day-Date with special dials; and rare and limited-edition form-watches by Cartier, to name a few. The entry ticket for a Patek Philippe split-second chronograph perpetual calendar or a high-quality vintage Rolex Daytona does not encourage newcomers as a starter.

Neo-vintage watches (roughly 1985 – 2005) offer the opportunity to acquire rare pieces made in relatively small quantities, with a broad variety of timeless designs and sizes. This was also when traditional Swiss horology was re-inventing itself, and important brands were launching or starting a new chapter of their history. Think about Lange & Sohne and other independent watchmakers making their first steps, such as François-Paul Journe. This was a wonderful period of creativity that we still have not fully discovered yet. For example, you can still find an automatic perpetual calendar by Patek Philippe for less than EUR 30,000.

The collectable status of a watch will come back. The global secondary market for contemporary sport watches may shrink over the next few years as it corrects, but this is only one part of the market, with

vintage and neo-vintage markets looking well placed to continue thriving and growing.

The watch market is both demanding and challenging. It requires knowledge and nerves, but it is also about passion and pleasure. Next time a person sitting next to you tells you the travails of the watch market, you can tell them about the opportunities, growth, record prices, mid and long-term investments, passion, vision, craftsmanship and history. The love of watches should make a heart beat like a well-regulated balance.

Benoît Colson**Director, International Specialist, Sotheby's**

Benoît Colson joined Sotheby's in 2014. After six years in London where he was Head of Sale, Benoît moved to Paris as International Specialist. He travels extensively across Europe to meet with clients and has played a key role in securing numerous important consignments.

As a specialist, he has developed an in-depth knowledge and expertise in Patek Philippe and Rolex watches. Originally from Belgium, Benoît holds several master's degrees in History of Art and Art market from the University of Brussels and the École du Louvre in Paris.



Money Maze Podcast

Est. 2020

With Simon Brewer



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In January, Money Maze host Simon Brewer interviewed **General Petraeus**, former Head of the CIA. Petraeus led coalition forces in Iraq and Afghanistan before his time as CIA Director in 2011-12. He is now Chairman of the **KKR Global Institute**. In this episode, Petraeus shared his perspectives on the Ukraine war, as well as his thoughts on some wider geopolitical themes (including NATO cohesion, China-US relations and the protests in Iran).

In addition, **Matt Smith**, Investment Director at **Ruffer**, appeared on the show's spin-off series, '**Curated Podcasts - With Simon Brewer**' in late January. Matt explained Ruffer's belief that most long only investors will not achieve positive absolute returns in the coming market cycle. The conversation covers the sticky nature of the inflation they see persisting, the dangers of hidden leverage, and why a structural market in bonds and equities may characterise the investment landscape for a while.

Established in 2020 by two finance industry veterans, **Simon Brewer** and **Will Campion**, the Money Maze Podcast features some of the biggest names in investment management, finance & business. 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 better navigate the pitfalls that line the path to prosperity. Whether you're a current or aspiring investor, entrepreneur, professional or student exploring career options, we hope you gain some helpful insights and enjoy the show.

To listen, search '**Money Maze Podcast**' on any major podcast app or YouTube. Or visit www.moneymazepodcast.com.

The Money Maze Podcast featured **Michael Birshan** of **McKinsey** in January, who shared some fascinating perspectives on the world of consulting and described some of the key challenges and opportunities for businesses in 2023. Specifically, he highlighted the transition to net zero and its immense financial implications, as well as innovation, supply chains, talent acquisition and more.

In the episode, he explained how reaching net-zero by 2050 may require an incremental \$3.5 trillion per year in decarbonisation capital expenditure, a seismic change which both corporations and SMEs are capitalising on.

Michael suggested that firms should 'lean in' to the net-zero transition and seek ways in which they can contribute, rather than merely trying to comply with governmental laws. In other words, firms should view decarbonisation as a significant opportunity to diversify into new areas and improve operational efficiencies, rather than a threat to their margins.

Viewed amidst the backdrop of Biden's Inflation Reduction Act and its subsidies for clean energy and climate-related projects, leaning into the net zero transition may be sage advice for business in 2023!

In terms of innovation, Michael stressed the importance of a firm disrupting itself, rather than risking it be disrupted by someone else (sometimes taking no risk is the biggest risk for corporations). In meetings with clients who are looking to diversify, he typically emphasised three points:

- The need to understand the company's historic core, and to comply with these values when seeking further growth
- The need to allocate capital effectively and sufficiently, rather than greenwashing in front of investors and consumers
- The need to create a clear transition strategy and capital allocation framework, to ensure investor confidence and operational success

Michael then explained that the secret to being a successful innovator is bridging the significant gulf between aspiration and delivery. He shared further insights into how he helps clients decide on what elements of innovation each company should fund. In doing so, he explained how companies need to ensure they have an environment where employees feel they are contributing to positive change, including a diverse and inclusive culture, despite the challenges that come with change.

THE VIEW FROM MCKINSEY

With **Michael Birshan**, Global Co-Leader of their Strategy & Corporate Finance Practice



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GUEST ARTICLES (cont.)

LIQUID GOLD: FINE WINE & WHISKY AS AN ALTERNATIVE ASSET

✪ **MATTHEW O'CONNELL, CEO OF LIVETRADE & HEAD OF INVESTMENT, BORDEAUX INDEX** ✪

As we enter a new year, many will be happy to see the back of 2022, which brought a cocktail of challenges, from Russia's invasion of Ukraine, rising inflation and an energy crisis, to recession fears and slowing global growth. Add Covid, closed Chinese borders, the death of the Queen and the shortest-serving UK Prime Minister into the mix and it's easy to see why the Collins Dictionary chose 'permacrisis' as its word of the year for 2022.

While stock markets yo-yoed, there was a silver lining for fine wine and whisky collectors and investors, as both sectors remained not only resilient in the face of ongoing economic headwinds, but proved themselves as a productive safe haven and inflationary hedge during these turbulent times. With ultra high net worth buyers flexing their financial muscles, prices

for a number of fine wines and whiskies reached record highs, particularly with a squeeze on some of the rarest items such as top Burgundy and Japan's Karuizawa whisky.

For proof of the current strength of the rare whisky market look no further than peaty powerhouse Ardbeg. The Islay distillery, owned by luxury goods giant LVMH, sold a rare cask distilled in 1975 to a private female collector in Asia for a staggering £16 million last June, knocking all previous cask sale records out of the park. The growth of the rare whisky market has exploded over the last two decades in line with a huge uptick in ultra wealthy luxury consumers, such that the global thirst for hard-to-source old and rare bottlings has reached unprecedented new heights.



“With ultra high net worth buyers flexing their financial muscles, prices for a number of fine wines and whiskies reached record highs...”

Matthew O'Connell

GUEST ARTICLES (cont.)

“...fine wine investment market more broadly remains incredibly brand-driven, with top name prestige cuvée Champagnes like Cristal, Krug, Dom Pérignon and Bollinger continuing their forward march...”

Matthew O'Connell



Given these strong market performances, it is unsurprising that investors are looking beyond challenged tech and crypto assets towards wine and whisky. Both assets exhibit a compelling combination of proven capital preservation and protection against inflation with each returning circa 15-20% in 2022 and 35-40% across the last two years.

Wine is in an upwards phase – it tends to go through cycles of price consolidation and growth – and we see the potential for this to be a sustained growth phase given the increased number of wealthy market participants. If we use Champagne as an example, as well as Burgundy, both of which are reaching an ever-growing consumer base, performance has been +60-70% area over the last two years.

In the whisky segment, the market is being driven by a deep structural supply/demand imbalance driving price growth in rare Scotch in the region of 20% (compound growth) annually over the last decade, equivalent to over +400% gross increase. When there is such sustained momentum in a market, the question of a 'bubble' always arises; but for whisky this seems not to take into account the unique combination of the demand from global wealth, consumption expansion, and a product that is structurally short in supply such that a rebalancing is a decades rather than years-long process. If only distilleries knew in the 1980s and 1990s what they know now; but instead, this was a period where there were now unthinkable closures of distilleries such as Port Ellen, Brora, Ardbeg (temporarily) and bulk liquid selling from The Macallan and others.

GUEST ARTICLES (cont.)

The fine wine investment market more broadly remains incredibly brand-driven, with top name prestige cuvée Champagnes like Cristal, Krug, Dom Pérignon and Bollinger continuing their forward march in what was the second best performing region of 2022. This hyper focus on brand makes sense given the expansion of luxury consumption and new entrants to the market, both collectors and investors, who are more familiar with well-known names and brands. Champagne has benefited from this as has Italy, namely Tignanello and Sassicaia.

The secondary market for rare whisky remains exceptionally strong and has diversified significantly as new names see ever-increasing demand alongside the ongoing growth of longtime leader, The Macallan. There is particularly strong activity in the cask market which many participants see as especially attractive given the ability to own old and rare liquid that is still ageing in an environment where the asset is increasingly scarce. Some distilleries saw price rises of over 50% in casks of 25 years old and over with Springbank,



Bowmore and Highland Park being good examples.

Overall, the picture entering 2023 is an interesting one. With wine prices having risen by around 40% over the last two years and some macro headwinds, there is an argument for a period of consolidation being on the cards this year (meaningful price softening being intrinsically less likely, based on there being very few downwards price phases in wine's history and whisky really being upwards-only). However there are some reasonably certain tailwinds for prices – including the reopening of the important Chinese market – along with an ongoing broader positive momentum.

About Bordeaux Index

Bordeaux Index is the world's largest trader of fine wine and whisky operating partly through the leading online platform, LiveTrade. The company also acts as a specialist asset manager with a particular focus on Separately Managed Accounts for UHNW, family offices and other quasi-institutional investors. One of its key aims is enabling access to these compelling asset classes with the same confidence investors would have investing in equities or other traditional assets.

Matthew O'Connell
CEO of LiveTrade & Head of
Investment, Bordeaux Index



REGULATION

Presented by



CRYPTO REGULATION TO TAKE EFFECT IN THE UK

HM Treasury has published a [consultation paper](#) that sets out the UK Government's intention to bring cryptoassets and cryptoasset related activities within the scope of the UK financial services regulatory regime, marking the next phase of the Government's approach to regulating cryptoassets.

The proposals seek to deliver on the ambition to place the UK's financial services sector at the forefront of cryptoasset technology and innovation and create the conditions for cryptoasset service providers to operate and grow in the UK, whilst managing potential consumer and stability risks.

Under the proposals, 'cryptoassets' will become a new type of 'specified investment,' which would mean that such assets have the same status as existing investment types such as shares, debentures, futures and contracts for difference.

'Cryptoasset' would be defined to refer to any 'cryptographically secured digital representation of value or contractual rights that can be transferred, stored or traded electronically, and that uses

technology supporting the recording or storage of data (which may include distributed ledger technology).'

In-scope regulated activities would include investment and risk management activities, issuance activities, payments activities, exchange activities, lending, borrowing and leverage activities, custody (safeguarding and/or administration) activities and validation and governance.

Cryptoasset activities provided in or to the UK would be caught, therefore the regime would have an extra-territorial scope.

The consultation paper also sets out proposals regarding investor disclosure, extending the market abuse regime to cryptoassets and authorisation/registration requirements.

HM Treasury has asked for respondents to submit their responses to the Consultation Paper by 30 April 2023.



CONSUMER DUTY UPDATE

The Consumer Duty (the 'Duty'), which takes effect on 30 July 2023, aims to deliver higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers. Whilst many 'alternatives' do not deal directly with consumers, some firms might be caught in the gravitational pull of the new framework, for example since end investors of an investment product are consumers or due to certain fund investors being considered 'retail investors.'

In preparation for the adoption of the Duty, the FCA requested implementation plans from larger firms who primarily operate in retail financial services. In January 2023, the FCA [published its findings](#) from its review of these implementation plans.

The FCA found that many firms understand and embrace the shift to delivering good customer outcomes, which the Duty will bring, and have established extensive programmes of work to comply with it properly. However, the FCA also found that some firms are further behind in their planning, so there is a risk that they may struggle to apply the Duty effectively once the rules come into force.

Regarding a specific aspect of the Duty, in December 2022, the FCA [proposed an amendment](#) related to the application of the Duty to non-retail financial products and services. The Duty is not intended to apply to wholesale investors and therefore financial products and services targeted at the non-retail sector are out-of-scope. Under the currently drafted rules, a financial product with a minimum investment of £50,000 is out-of-scope. However, the FCA is proposing excluding investment funds with this, on the premise that investment advisers/promoters might think the fund is out-of-scope due to the minimum investment criterion, even though certain retail clients, such as high net worth individuals, are able to invest.

Should this be accepted, this might create issues for funds that are made available to 'friends and family' or employees that are classified as 'retail' for financial promotional purposes notwithstanding that the subscription amounts exceed £50,000.

REGULATION (cont.)

Presented by



JANUS HENDERSON: FIVE INDIVIDUALS FACE CONSPIRACY TO INSIDER DEAL AND MONEY LAUNDERING CHARGES

The FCA [has launched criminal proceedings](#) against a former analyst at fund manager **Janus Henderson** and four other people for conspiracy to commit insider dealing and money laundering.

The regulator alleges that *Redinel Korfuzi, Oerta Korfuzi, Iva Spahiu, Rogerio de Aquino* and *Dema Almeziad* conspired to commit offences of insider dealing between 17 December 2019 and 25 March 2021. Specifically, the FCA alleges that Korfuzi used confidential inside information he accessed as an Analyst in his former role at Janus Henderson to enable timely and profitable trading in 49 companies through accounts held by his co-conspirators.

In each case, the defendants used contracts for difference in relation to each of these companies, betting that the value of shares would go down after the announcements. In doing so, they were able to realise profits of approximately £1.5 million.

All five are also charged with money laundering offences relating to over 170 cash deposits totalling approximately £200,000.

The case was formally sent to Southwark Crown Court, where the defendants will appear on 22 February 2023 for a Plea and Case Management Hearing. All the defendants have indicated Not Guilty pleas.



SEC AND CFTC UPDATE

It has been a relatively quiet start to the year as far as **SEC** and **CFTC** rulemaking goes, but the SEC is certainly active on the examination front. Various proposed rules are still waiting to be finalised, including new rules seeking to enhance the regulation of private fund advisers and to protect private fund investors, rules related to cybersecurity risk management and proposed rulemaking to enhance and standardize climate-related disclosures. The comment period for these proposals was reopened in October 2022 after a technological error resulted in a number of public comments not being received by the SEC.

On top of those, there is also a proposed new rule seeking to prohibit registered investment advisers from outsourcing certain services and functions without conducting due diligence and monitoring of these service providers.

While we await finalisation thereof, the SEC also generally releases its annual examination priorities during the first quarter of the year and as such we anticipate a potentially newsworthy couple of months in the pipeline.

Continued over page

REGULATION (cont.)

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Continued from previous page

On the examination front, we've seen the SEC performing sweep exams focused on electronic communications, and it was [recently reported](#) that some larger registered investment advisors have been asked to review "certain employees' personal mobile phones for evidence of business dealings on unapproved channels".

With the compliance date for the new Marketing Rule passing in November 2022, we do expect to start seeing some sweeps focused on that space.

RQC Group's U.S. Managing Director, *Allison Gill*, recently published a [breakdown](#) of important elements of the new Marketing Rule versus past requirements.

SEC CHARGES FORMER BLACKROCK PORTFOLIO MANAGER WITH UNDISCLOSED CONFLICT OF INTEREST

The SEC [has charged](#) *Randy Robertson*, a former **BlackRock Advisors, LLC** portfolio manager, for failing to disclose a conflict of interest arising from his relationship with a film company in which the fund he managed for BlackRock invested millions of dollars.

The SEC's order found that from 2015 to 2019, **BlackRock Multi-Sector Income Trust ("BIT")** invested up to \$75 million in a secured lending facility to fund the print and advertising expenses associated with particular films that **Aviron Group**, a holding company, distributed.

Robertson had a significant role recommending and overseeing BIT's loans to the Aviron subsidiaries. At the same time, Robertson asked Aviron to help advance his daughter's acting

career. Aviron helped Robertson's daughter obtain a small role in a film produced in 2018, which Robertson failed to disclose to BIT's board of trustees or BlackRock's compliance and legal teams.

Robertson consented to the entry of the **SEC's** order finding that he violated Section 206(2) of the Investment Advisers Act of 1940. Without admitting or denying the SEC's findings, Robertson agreed to a cease-and-desist order, a censure, and the \$250,000 penalty

Click [here](#) to subscribe to The Alternative Investor; or if you have a question about the publication or a suggestion for a guest article send an email to the editorial team hello@brodiecg.com



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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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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