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Risk Parity Weathers Bond Rout

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Debt-Focused Fore Becoming a Family Office

Matthew Li is converting his **Fore Research & Management** into a family office. Fore, founded in 2003, was managing $2.6 billion, on a gross basis, as of June 30. While details are sketchy, it appears the New York firm is now unwinding its flagship Fore Multi-Strategy Master Fund, an event-driven debt vehicle that was showing a 10%-plus annualized return as of the first quarter of 2015.

Why Li is exiting the business now is unclear, but sources said he had made up his mind well before the Nov. 8 election led to a spike in bond-market volatility. Li is the latest in a long line of veteran fund managers who, in the years since the financial crisis, have opted to return investor capital and convert their firms to family offices — most recently **Perry Capital** chief **Richard Perry** and **JAT Capital** founder **John Thaler.**

At midyear, Fore had a staff of 26, including 13 investment professionals. The firm's investment analysts remain on the payroll for now, but "few are going into the

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Tax-Driven Strategies Lose Luster Under Trump

Tax cuts proposed by **President-elect Donald Trump,** while widely supported by industry professionals, could have unintended negative consequences in some corners of the market.

Reducing income taxes, for example, would diminish the appeal of insurance-dedicated funds that gained popularity in the wake of a tax hike signed by **President Obama** in 2013. The prospect of lower taxes — as opposed to an expected tax increase had **Hillary Clinton** won the election — also changes the equation for owners of hedge fund firms contemplating partial divestitures. Suddenly, the tax benefits of such a move aren't quite as compelling.

"Generally speaking, there will be less of a focus on tax-driven transactions and strategies of any kind," one source said.

The Obama tax increase spurred demand for insurance-wrapped hedge fund products including annuities and universal-life policies that allow investors to

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Rosebrook Still Hunting for Anchor Capital

Rosebrook Capital hopes the coming months will see it find an anchor investor for its latest secondary-market fund.

The New York firm has been trying since February to raise $250 million to $500 million for its planned Global Secondary Acquisition Fund, with perhaps $100 million of that amount ideally coming from a single large backer. But it has yet to reach a deal with such an investor.

When Rosebrook launched its previous fund in 2012, **Deutsche Bank** stepped up as the anchor investor. With the German bank facing broad financial strains, however, it signaled even before the new vehicle hit the market that it wouldn't return.

That set Rosebrook and placement agent **Stonehaven** on the hunt for a replacement that ideally would be on board for a first close. In fact, Rosebrook chief executive **Andrew Lawrence** decided against holding an initial close at midyear with a

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THE GRAPEVINE

Research head **Neil Shah** and senior portfolio manager **Basilio Lukis** are leaving New York fund-of-funds operator **J. Safra Asset Management.** Their plans are unknown. Shah had arrived at the Safra National Bank of New York affiliate from **Bluefin Energy** in 2006. His exit would follow the September departure of **Braxton Fonville,** an analyst on his team. Lukis joined J. Safra in June 2015 from **RBC Wealth Management.** J. Safra was managing $954 million of gross assets at yearend 2015.

Dechert partner **George Mazin** is reducing his workload — a move that includes stepping down from his New York-based post as head of the law firm's private-fund practice in the U.S. Mazin has worked at Dechert since 2002. Partner **David Vaughn** is taking over as head of the private-fund team. He has served two stints at the firm dating back to 1997, separated by two years at the **SEC.**

Executive-search firm **Wall Street Options** has hired **Tom Witz** as head of

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As bond prices fell this month, a big question on the minds of many hedge fund managers was how risk-parity funds were holding up.

Because those vehicles apply hefty amounts of leverage to their bond portfolios, they are seen as especially vulnerable to market sell-offs. And because risk-parity products typically take the form of mutual funds, with substantially lower fees than private funds, many hedge fund managers would like nothing more than to see them stumble when volatility increases — as it did following the Nov. 8 election.

But the early returns suggest risk-parity funds have held up relatively well, thanks in part to a simultaneous rally in the equity market. While most posted losses for November, some of the leading names are showing year-to-date returns that are still well ahead of the average hedge fund.

An analysis by **Markov Processes International,** a Summit, N.J., firm that tracks the performance of risk-parity funds, found that during the most volatile stretch — Nov. 16-23 — risk-parity returns were better than those of the bond markets they invest in, including U.S. Treasurys and European and Japanese sovereign debt.

For the month through Nov. 28, AQR Risk Parity 1, a mutual fund with $408 million of assets, was down 2.7%. But it was still up 8% year-to-date. Compare that to the HFRX Global Hedge Fund Index, which notched a monthly gain of 1.6% through Nov. 28 — but whose year-to-date return was a paltry 0.8%.

Or take a $5.3 billion **Invesco** vehicle dubbed Invesco Balanced-Risk Allocation Fund. It's down 0.5% this month but is still up 10.2% for the year.

"Even though all the [risk-parity] funds display negative returns during November, it is important to put this in context of the large fixed-income and other losses," said **Apollon Fragkiskos,** director of research at Markov.

He noted that risk-parity vehicles maintain diversified portfolios, with gains or marginal losses in some sectors and asset classes offsetting heavy losses in others. For example, while Japanese government bonds plunged 7.8% in the Nov. 16-23 stretch, high-yield U.S. corporate bonds were flat. And commodities jumped 10.2%.

The risk-parity approach, which originated with **Bridgewater Associates'** All Weather strategy, allocates capital equally to stock, bond and commodity investments based on risk — and thus typically maintains higher exposures to bonds than other diversified portfolios. Investors have poured billions of dollars into risk-parity funds since the financial crisis, drawn by relatively low fees and performance fueled by multi-year rallies in both stocks and bonds. Led by the massive All Weather fund, the risk-parity sector currently manages at least $400 billion.

Markov wasn't able to obtain a November return for All Weather. But through Oct. 31, the vehicle was up 12% year-to-date.

The recent bond-market rout was driven by several factors, including anticipation that the **Federal Reserve** will soon begin hiking interest rates and that a plan by **President-elect Donald Trump** to invest in infrastructure will flood the market with fresh paper. But forced selling by risk-parity funds themselves often is blamed for fueling market volatility. ❖