



It has been a busy year for seeding firms, although many have taken a cautious approach. Our fifth annual *HFMWeek* seeding feature looks in detail at the top five seeders who have seen the most success in 2014

BY ALEX CARDNO

**2**014 has seen a notable pickup in the number of deals completed by dedicated seeding funds, but there is still an element of caution in the air.

After a quiet 2013, this year has seen an uptick in activity by both the large players and by other market participants, as the spinout of investment bank prop trading desks and capacity issues at large hedge funds pushes more talent into the start-up market.

*HFMWeek's* fifth annual look at the state of play in seeding reveals a steady flow of deals by some of the

powerhouses of seeding, with more in the pipeline for early 2015.

Seeding firms say they are busier than ever – but the supply of managers still seems to outweigh the demand to seed them, indicating a cautious, long-term approach by seeding firms. This is borne out by the number of deals done by this year's top firms. Blackstone, viewed by many as the largest specialist seeder, leads the way with three deals in 2014.

Similarly, Grosvenor Capital Management, sitting on an estimated \$250m of dry powder a year ago, has used most of that figure up in two deals this year. The veteran seeding firm is expected to complete the deployment of its \$500m seeding fund by the end of the year with a third deal scheduled for December.

It announced a seeding deal with asset management firm Tor Investment Management, an Asia-focused credit and event-driven manager, at the end of 2013. Then, in October this year, a deal was announced with Pinyon Asset Management, a global event-driven investment management firm.

Pinyon now manages more than \$100m for Grosvenor and other investors, while the first three funds in Grosvenor's stable, Continuum Investment Management, Engaged Capital and Nightscape Capital, account for \$245m of the \$500m seeding fund.

Grosvenor, which began seeding asset managers in the early 1990s, would not be drawn on whether it will raise a new seeding fund but it is anticipated that this will not be its last venture in this space.

Other large players, notably Reservoir Capital and Protégé Partners, have kept a low profile and are expected to finish the year with one deal each.

Wedded to the deal flow is a positive, if slightly hushed mood around raising capital for new seeding deals, a further indication that while the market is steady, it is a slow process to put a deal in place.

This is partly down to region, as Philippe Paquet, deputy CEO of NewAlpha Asset Management, explains: "In the US, the environment is particularly interesting for seeders as there is plenty of capital available.

"Raising capital for start-ups is easier over there and you don't see so many seeding platforms retreating, whereas in Europe it is a bit more difficult."

There is some evidence to bear this claim out. NewAlpha itself has spent 2014 in fundraising mode, targeting €200m

## 05 STRIDE CAPITAL



### DRY POWDER

**\$50m**

**DEALS IN THE LAST 12 MONTHS:**

1

■ Vertex Capital Services

Stride Capital has continued 2014 at a pace it has kept since the firm began in 2010. One manager has been seeded each year for the past three years and 2014 has been no different, with the firm striking a deal in May with technology-focused activist investor Vertex Capital Services to provide seeding of around \$40-50m.

That deal added Vertex to a stable of funds which includes long-biased Barnstar Funds and long/short equity manager LRV Capital Management. Although not a firm to be drawn on exact figures, Stride Capital has accepted new capital from investors this year, has dry powder to deploy and is in negotiations on further deals.

According to Don Rogers, a founding member of Skybridge Capital and now the founder and managing partner of Stride Capital, the stated case is to do one or two seed deals each year.

(\$250m) to close its second seeding vehicle with Next Asset Management. The firm expects to announce up to three deals before the end of this year.

Other European seeders have also slowed down. Netherlands-based IMQubator has not announced any seed deals in 2014, but reports earlier this year suggested it would liquidate its seven-year-old seeding fund by December 2015. In its stead, the company is said to be launching a hybrid relationship platform to provide acceleration capital to small and medium-sized managers.

Meanwhile, FRM Capital Advisors, the seeding unit of Man Group FoHF FRM, has also not announced any deals this year, and declined to participate in *HFMWeek's* research. Head of seeding Patric de Gentile-Williams left in May.

In the US, the situation is more nuanced. As the CEO of one \$7bn AuM asset manager argues, the rates of return in seeding have been "uninspiring" in recent years, to the extent that more capital raising is now being targeted at buying stakes in established firms, rather than trying to help a business get started.

But, the CEO says, this trend makes it more interesting for those who have chosen to stay in the seeding game.

"Seeding is really interesting right now because there is a lot of good talent but a very small pool of phenomenal talent," the CEO says.

"The supply of capital has dwindled, so if you have capital it makes things more interesting on the margin because exceptional talent is always around but is always rare, so you are constantly looking for a very small number of people and teams."

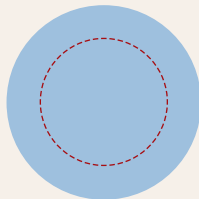
Another major seeder echoes the sentiment, pointing out that despite the relatively small pool of specialist

## TOP 5 12-MONTH SPEND

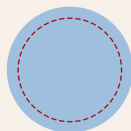
12-MONTH SPEND

DEALS

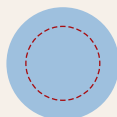
**BLACKSTONE**  
\$600m  
3



**GROSVENOR CAPITAL MANAGEMENT**  
\$250m  
2



**RESERVOIR CAPITAL**  
\$200m  
1



**PROTÉGÉ PARTNERS**  
\$50-100m (est)  
1



**JP MORGAN**  
\$50m  
1



SEEDING IS REALLY INTERESTING RIGHT NOW BECAUSE THERE IS A LOT OF GOOD TALENT BUT A VERY SMALL POOL OF PHENOMENAL TALENT



CEO OF \$7BN AUM ASSET MANAGER

“THERE ARE ONLY A SMALL NUMBER OF COMPETITORS SECURING DEALS BUT CAPITAL RAISING HAS DEFINITELY BECOME A HARD PART OF STARTING A BUSINESS FOR THEM

” MANAGING DIRECTOR OF A NEAR-\$50BN AUM INVESTMENT MANAGEMENT FIRM

seeding firms, there is plenty of capital ready to be deployed in seeding. But for managers, the process of securing it has become longer.

“Raising seed capital as a manager is a much longer process than it was pre-crisis,” says the managing director of one near-\$50bn AuM investment management firm.

“There are only a small number of competitors securing deals but capital raising has definitely become a hard part of starting a business for them.”

While all eyes remain focused on announcements from the large seeding players, there have been smaller deals done this year. For example, Morgan Stanley veteran Steven Cress launched Cress Capital Management on Trium Capital’s London-based platform in November.

The launch was backed with \$10m from Trium, its largest individual seed ticket to date, and was one of three new funds Trium launched in November, the others being Africa Merchant Capital and QSI, a new managed futures fund being launched by former Graham Capital and AHL managers Simon Crooks and Lee Bostock.

September also saw JP Morgan Asset Management enter the seeding fray, with a reported \$50m backing of Aithon Capital Management, a global macro fund launched by former Soros Fund Management and Caxton Associates executive Hal Lehr.

In October, London-based Anavon Capital launched a Ucits version of its long/short equity strategy after receiving seed capital from \$3.5bn FoHF Tages Capital. Tages Capital typically invests between \$20m-\$40m in Ucits managers, CIO Salvatore Cordaro has previously told *HFMWeek*, although the terms of Anavon’s deal were not disclosed.

In an interview with *HFMWeek* earlier this year, the firm revealed its plans to start seeding hedge fund firms or accelerate existing managers through a dedicated FoHF, the Tages Emerging Opportunities fund, which launched in January 2014 with \$200m from a sovereign wealth fund client. It plans to work with up to 10 managers over the next three years, depending on the amount of capital raised from family offices and other institutional investors the firm is targeting.

“It is a good time for talented managers,” says Ted Seides, president and co-CIO of Protégé Partners. “There is lots of capital and very few experienced seeding firms. The challenge for managers is in building the right team, replicating the success a manager has had at their previous hedge fund, and luck with the strategy.”

Looking ahead, there is a possibility that the trend for buying stakes in established managers could overtake the seeding trend. For start-up managers the challenge, as ever, is convincing seed investors of their ability to replicate their previously demonstrated skill and track record with a new venture. ■

04 NEWALPHA ASSET MANAGEMENT

Despite a lack of deals so far in 2014, it has been far from a quiet year for Paris-based NewAlpha Asset Management. A new SICAV, Emergence Action, had its first close with \$120m in March. The fund is the second seeding venture undertaken by Emergence, a joint investment partnership between \$3.8bn AuM NewAlpha and Next AM, a \$5.4bn asset manager.

The second closing of this new fund will be at the end of this year, with \$250m, and the first two seed investments are to be announced before the end of 2014, with a third expected to be announced at the start of next year. Aside from the new investments, NewAlpha continues to manage the NewAlpha Genesis fund, and is set to launch a fund next year, which will seed US-only hedge fund managers, and is backed by a European insurer.

The tie-up with Next AM has also prompted NewAlpha to consider new areas. “Private equity is something we are considering and it is where we want to go over the next few years,” says Philippe Paquet, co-CEO of NewAlpha. “There are several motivations. Globally, the asset management industry is on the eve of very deep consolidation. Fees are decreasing from every side and there is too much supply. On the other side, there is strong consolidation of capital providers.”

DRY POWDER

\$300m

DEALS IN THE LAST 12 MONTHS:

0

02 PROTÉGÉ PARTNERS (JOINT 2ND)

New York-based FoHF Protégé Partners returned to the seeding market this year following a quiet 2013, when it made several redemptions and no new deals.

In July this year, Protégé Partners provided seed capital for the launch of London-based Ledbury Capital Partners, a special situations manager focused on European equities. The firm is headed by CIO Michael Alsalem, who started the venture following stints at Highbridge Capital Management and Centaurus Capital, alongside COO Chude Chidi-Ofong, who previously worked at Eton Park International and Caxton Europe Asset Management. A seeding figure has not been revealed but the firm tends to seed with between \$50 and \$100m.

Founded in 2002 by CEO/co-CIO Jeffrey Tarrant and president/co-CIO Ted Seides, Protégé has other deals in the pipeline but will not be drawn on the number or timeline of any new seeding agreements. In keeping with the sentiments of most of its similar-sized competitors, Seides says up to two deals are feasible in 2014, but any more than that is highly unlikely.

DRY POWDER

\$500m

DEALS IN THE LAST 12 MONTHS:

1

■ Ledbury Capital Partners

RATIONALE

This survey does not aspire to cover all hedge fund seeding activity, just those deals completed by dedicated platforms and vehicles with pools of capital dedicated to seeding. To be eligible, said vehicles should include external investment or be prepared to open to outside investment. The information in this survey has been collated from interviews with industry experts and in-house research. For those firms in the dry powder rankings for which ticket sizes for completed deals were unavailable, the average ticket size was calculated by *HFMWeek* and subtracted from the allocated total available. The survey covers the 12 months from November 2013 through October 2014.

## 02 RESERVOIR CAPITAL (JOINT 2ND)

Slow and steady has been the strategy for Reservoir Capital this year. One seed deal for the \$7.5bn investment firm in 2014 takes its dry powder figure from \$700m to \$500m, but this year's one launch is a notable deal for the seeding giant headed by former Ziff Brothers executives Dan Stern and Craig Huff.

Reservoir Capital has seeded Fredrik Juntti's latest venture, a London-based activist fund called Abberton Capital, with \$200m for a December launch. That launch is the fourth seed in Reservoir Capital's portfolio. The fund has \$500m still to put to work and that capital should be spoken for by the end of 2014 with three more deals in the pipeline for early next year.

A full commitment of its remaining capital should take the number of seed funds in Reservoir Capital's portfolio to eight. For now, Abberton Capital joins a stable including Wingspan Investment Management, Seastone Capital Management, Lomas Capital Management and Camares Capital. While the fund has a limited time to deploy its remaining capital, there is no indication it will step back from seeding once the current fund is fully committed, having raised a sizeable \$1.3bn for this vehicle.

“ THE CHALLENGE FOR MANAGERS IS IN BUILDING THE RIGHT TEAM, REPLICATING THE SUCCESS A MANAGER HAS HAD AT THEIR PREVIOUS HEDGE FUND, AND LUCK WITH THE STRATEGY

” TED SEIDES, PROTÉGÉ PARTNERS

## 01 BLACKSTONE GROUP

Three deals in 2014 mark a step up from Blackstone Group's two seed ventures in 2013. While specific numbers are not forthcoming, estimated ticket sizes of between \$100m-\$200m have pushed Blackstone's aggregate capital commitment to nearly \$600m in 2014, its seventh year seeding hedge funds.

In April, Robert Dafforn's Bybrook Capital, a London-based absolute value credit manager received \$200m. September saw Arkkan Capital, a Hong Kong-based special situations fund run by former Goldman Sachs executive Jason Brown, and Mark Black's Raveneur Capital receive \$200m each.

With that capital committed, dry powder of \$600m remains in the \$2.4bn Blackstone SAF II fund, which has now completed 13 deals after Bybrook Capital received \$150m and Princeton Alpha Management received \$250m in 2013.

Those funds are part of a Blackstone roster containing Naya Capital; Orchard Hill; Taylor Woods; Carrhae Capital; Bow Street; Harbor Bridge; Denjoy Capital and Surevie.

SAF II's predecessor fund, SAF I, allocated \$1.1bn to eight funds. Described by competitors as having a massive war chest, Blackstone is set to remain a huge force in the seeding for some time to come.

### DRY POWDER

\$500m

#### DEALS IN THE LAST 12 MONTHS:

1

■ Abberton Capital (\$200m)

### DRY POWDER

\$600m

#### DEALS IN THE LAST 12 MONTHS:

3

■ Bybrook Capital (\$200m)  
 ■ Arkkan Capital (\$200m)  
 ■ Raveneur Capital (\$200m)

## TOP 5 DRY POWDER

