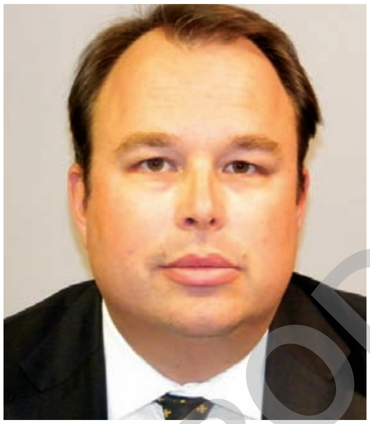
Hedge funds house

Credit Suisse

Robust risk management combined with a continued commitment to financing stand at the heart of Credit Suisse's success in hedge fund derivatives. With a business that can be roughly divided into half derivatives expertise and half financing, the bank has sustained and expanded in a time of crisis where many others have fallen away.

Crucially, the products on offer have been flexible, uncomplicated and adaptable to the needs of Credit Suisse's clients. Furthermore, the team knows its products well and understands the hedge funds industry inside out.

"They have been a joy to deal with," says London-based Christina Wiens Elkington, fund operations manager at Thames River, which mandated the bank after a lengthy and extensive beauty contest. "They are responsive, interested and available at all times and have accommodated new requests or modifications without hesitation. This is not limited to the original individuals we met either, but to every new team member that came into the picture... We would recommend Credit Suisse without hesitation any time."



Cameron Hedger

As well as increasing personnel by 10% in a global team that numbers around 100, the bank entered an agreement in May to buy Fortis Bank Nederland's Prime Funds Solutions (PFS). PFS is a hedge fund administration service that provides independent administrative services, investor services, net asset value calculation, banking, custody and financing solutions and, according to Cameron Hedger, co-head of fund linked products at Credit Suisse in London, it will help "grow our financing book following the completion of this acquisition".

The strength of the Credit Suisse franchise – in which all managing directors have been resident for between seven and 12 years – comes with a commitment to provide competitive fees that are adjusted in line with the market. Elkington stresses the bank will always attempt to work their fees "downwards – never upwards without notice". And, if there was a time where the need to increase fees would emerge, Credit Suisse offers a sufficient notice period to either cancel the agreement or to negotiate if necessary. "Yet this is not something we have come across with any other players in the market," adds Elkington. "Since we signed up, their fees have been decreased three times."

The bank is always quick to spot opportunities for new business, particularly in the insurance sector that arose in the wake of the financial crisis. "Post-crisis we developed a suite of solutions to meet the demands of pension funds and insurance companies in the long-term savings space," explains Hedger. "This was in response to insurance companies pulling back from their traditional variable annuity (VA) product offerings, given that many of them had mixed experiences in the risk management of those products during the crisis."

This review by insurance companies and pension funds of their traditional models created an opportunity for investment banks to provide hedges for their retirement savings-style products. "[Our offering] included the micro-CPPI platform, which allows insurance companies to tailor the investment at an individual account level," says Hedger. "That's a very attractive proposition because it offers the tailoring flexibility they had been offered in their traditional VA products, but without the insurance company having to wear the market risk."

Historically, insurance companies tended to manage their risk on a portfolio rather than on a fund-specific basis – the traditional hedge, for example, would be to trade futures on equity indexes against the fund derivative risk they were exposed to. This left them with considerable basis risk between the funds and equity indexes.

The bank set to work on the project in December 2009 and immediately ringfenced the right team. "A customised solution was required because some customers had five years to retirement and some had 20 years. In terms of allocation, it is not the same," says Mounir Elarchi, co-head of fund linked products at Credit Suisse in London.

"In simple terms they just mispriced effectively the puts that were inherent to this structure," says Elarchi. "They didn't hedge the liability. Up to five or seven years ago, there was that feeling in the market that if you put your money in equities over 10 years, you always make money. That belief has not disappeared but it has been shaken, and maybe the time horizon has increased... insurance companies were thinking of it more from an actuarial basis, whereas we look at it more from a market perspective. Selling long-term puts is the technology we introduced."

The bank has held a firm line with hedge fund derivatives and does not impose the use of managed account platforms as is often favoured by competitors. "We made the decision not to develop managed accounts because we did not believe that an asset management access vehicle is best housed within an investment bank's derivatives business," says Hedger. "We decided instead to partner with Man Investments and use its managed account platform on a preferred basis."