François Bocqueraz talks about his experiences conducting operational due diligence and manager selection for **Amundi Alternative Investments**, focusing on the changes the Alternative Investment Fund Managers Directive will bring to the European hedge fund industry

Smart due diligence – Think ahead, plan accordingly

François Bocqueraz, global head of hedge fund manager relations & selection – based in London, Amundi Alternative Investments

HEDGE FUNDS REVIEW: The more exciting and fun part of your job is manager selection. Can you tell us a little about how you do that and what kind of managers you pick?

François Bocqueraz: The ultimate objective of due diligence is not solely to select the best possible managers. The utility function is key to everything we are doing, so it is extremely important to always keep in mind that, when you select managers, you do it for a good reason and that reason is you go on the trail of actionable investment ideas.

Our mission as analysts is not about meeting with the best talent out there; our job is to help put client monies to work at a favourable moment in the context of what the firm believes is the appropriate tactical and strategic asset allocation for our investors.

Our manager selection process is thus extremely simple. The process is about finding actionable ideas at all times; that's the exciting part of my job. You would naturally believe that we go through a number of different screens and techniques that filter the whole investment universe. Sure, but what we do filter instead, what we do select, are managers that we believe, in the end, will be an investment that makes sense for our portfolio managers' goals.

Portfolio managers see a world that is geared towards the short to medium term. Thus, what we need to do as a hedge fund selection group is to determine those managers that will opportunistically feed their needs at an opportune moment. Simultaneously, we manage a roster of funds that we also believe are structurally good for the medium to long term. As a result, together with our portfolio managers, we build a list of select funds that is extremely solid to navigate through the entire global market cycle.

HEDGE FUNDS REVIEW: Do you have a minimum assets under management limit? When you invest is there a sort of average ticket size?

François Bocqueraz: We tend not to invest with smaller names, though that is not because we think they are not capable of managing the money. Given our assets under management size, we invest with managers that are scalable enough to meet our needs as investors. We usually allocate, as a minimum, $50 million on day one with high conviction managers. We then want to build from that, we will not sit on that initial Investment. We want to be able to grow and potentially make it a concentrated position. At the same time, however, we don't want to be in control of a big chunk of our underlying managers' business or indirectly affect the business of others invested with our hedge fund managers. We usually focus on larger firms, but not necessarily extremely large managers.

HEDGE FUNDS REVIEW: What kind of structures do you use? How do you fit managers into these?

François Bocqueraz: We do not invest with offshore hedge funds for one reason: we believe that regulation matters. The regulatory environment for investment is important to us. Customisation is also extremely important. Our investors ask for real, customised mandates for their varied needs. We believe our managers should customise for us, too. Therefore, we invest primarily through managed accounts and funds of one. Those investment vehicles are domiciled in Ireland and are designed in a way that fits our very needs in terms of liquidity, investment strategy and risk profile.

HEDGE FUNDS REVIEW: When you're doing due diligence on these managers, are there common reasons why you might reject a manager?

François Bocqueraz: Yes. On the investment side it's pretty clear. If a manager will not fit our medium-to-long-term view, or if there is little scalability in the manager or investment strategy, then it is of no interest to us because it will ultimately not make any meaningful impact on the overall performance profile or bring any diversification benefit to our funds of funds and mandates. The second aspect is the operational challenges facing some candidate managers. We believe there are minimum standards that all managers should meet. As a result, the most common reasons to reject a manager are a lack of scalability on the business and investment side and structural weaknesses on the operational front.

We should never forget that we don't invest in managers – we invest with managers who themselves allocate to a variety of assets across markets. This is where significant operational or execution risks are being created. You may choose the right investment strategy but you don't necessarily invest in the right investment vehicle and in the right fashion. The point is we try to find managers who have a good sense of where the market is heading in terms of technology, regulatory environment, client services and of executing properly their investment strategy.

HEDGE FUNDS REVIEW: Once you've selected a manager and you've gone through the due-diligence process, do you have ongoing due diligence and monitoring?

François Bocqueraz: To some extent, initial investment due diligence is extremely easy. You know why you're selecting a manager. They perform and fit a need for your investment portfolio – here and now – today. But, tomorrow, what will happen with that manager? Will the investment strategy be relevant or be good enough for our portfolios? Maybe, probably at specific points in time in the cycle. Thus, when it comes to ongoing due diligence, you have to be smarter and very iterative in your approach.

Our process is tilted towards reviewing and documenting continuously all aspects that we believe are material to the execution of the strategy. It is important to interact with managers every month and perform full re-evaluations on a yearly basis. We conduct monthly manager conference calls to go over individual trade ideas and we require onsite visits on a regular basis. All of these things are mission-critical for all stakeholders to understand what we are doing and, more importantly, why we are doing it.

It is also a matter of making sure we have as much relevant market insight and portfolio information as possible to convey the appropriate investment advice to our clients and to our internal portfolio managers because, as they form their market view, adjust their strategic asset allocation and make tactical allocation calls, our duty is to help them achieve the best possible result.

HEDGE FUNDS REVIEW: How do you work with your portfolio managers and what is your role, what is the relationship?

François Bocqueraz: In your relationship with portfolio managers, it is good to keep in mind that what is crucial to them is the immediate availability of quality and timely investments. They focus on portfolio construction and on the needs and parameters of each of their mandates. They are in sync with what is the best mix of managers and strategies based upon the current set of opportunities, and they will inherently favour the short to medium term.

When it comes to the analysts, they hear what the needs of the portfolio managers are and they respond to those needs. They will be as proactive as possible, manage expectations and deliver. As mentioned earlier, analysts also strive to have a list of approved managers to cover the whole market cycle. We will focus on the medium to the long term. It is important that we have something actionable for our portfolio managers if the market is changing and if they are changing their views on the market. Again, it all comes down to having a wide menu of actionable ideas at all times. This is how we differ in our roles, responsibilities and priorities.

Ultimately, all of our collaborative work and interactions are to the benefit of our investors. There is a natural consensus building and that consensus, the end-result, is a portfolio and its performance.

HEDGE FUNDS REVIEW: Do you see the Alternative Investment Fund Managers Directive (AIFMD) as a game changer for Amundi and for the asset management business in Europe?

François Bocqueraz: In our view, it won't make a major difference in the very short term because there is a reasonable transition period before all money managers adapt to the new rules. For Amundi, however, it is an immediate change. We run a managed accounts and funds of one platform in Ireland and we are a French asset manager, so we are immediately impacted by the directive. We made the strategic decision to opt in as quickly as possible and we've just filed our application with the French regulator. Our objective was to be AIFMD-ready and to be granted AIFM approval at the earliest possible opportunity.

Will it be a game changer for the industry as a whole? Structurally, no; but it will dramatically foster convergence between market participants, be they traditional fund managers or hedge funds in the European absolute return space. In the end, it will bring standardisation and we believe as investors that standardisation is critical.

With AIFMD, the reporting cycle will be much better and the dialogue between regulators, investors and managers will increase further. It is important also to reinforce investor protection and custody requirements. Historically, there have been some blatant examples that demonstrated that custody rules were not functioning in the way people expected.

Is it a game changer for large institutional investors? Probably not. Because they are expert investors, they know what they are doing. Investing in hedge funds was a great proposition and it still is great, with or without AIFMD. Now there will be an additional opportunity to invest with AIFMD-compliant managers, and we look forward to it.

To view the full recorded proceedings of the Q&A, visit: *www.risk.net/2297261*