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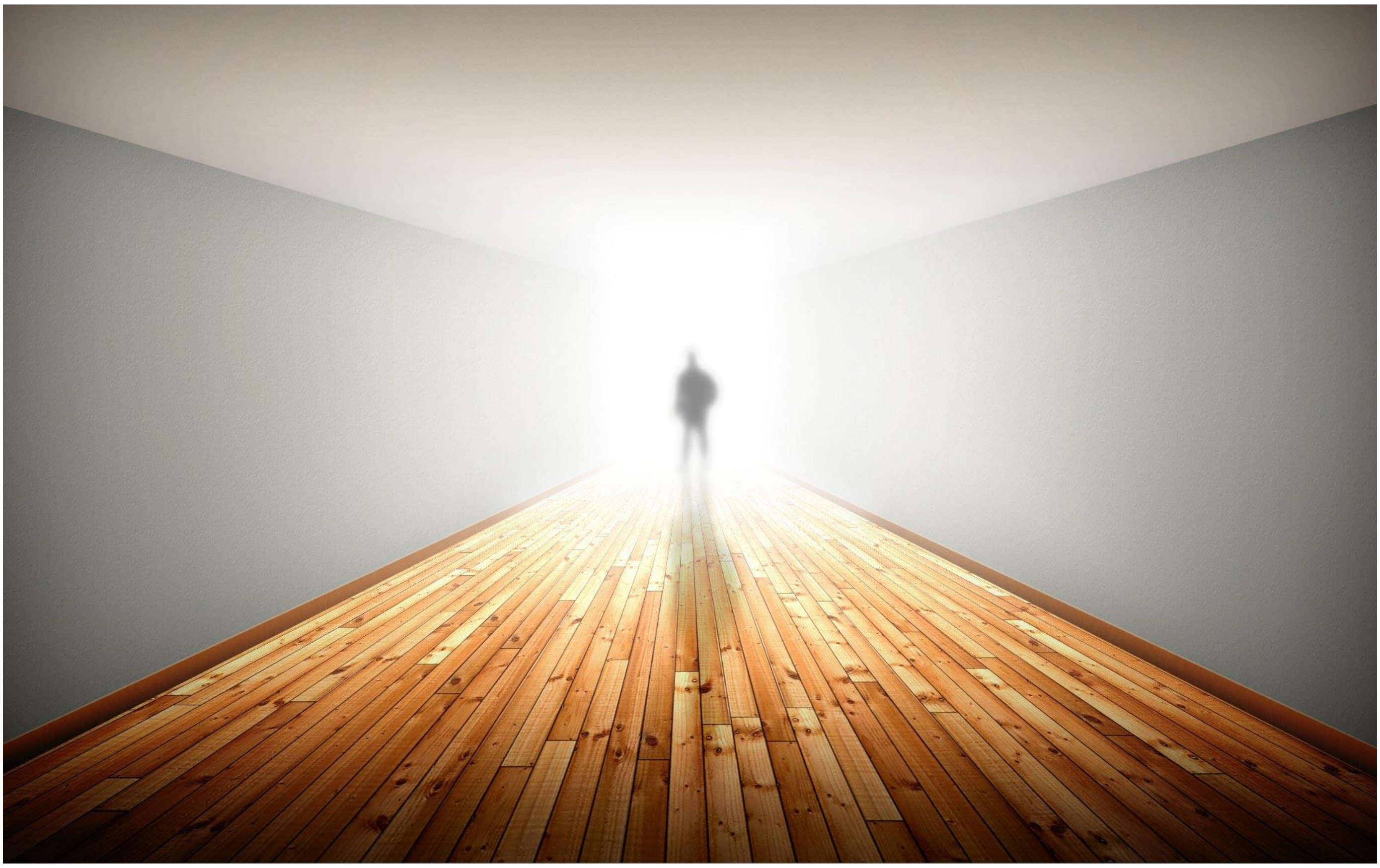


Put into perspective

Ahead of the mainstream

April 2018

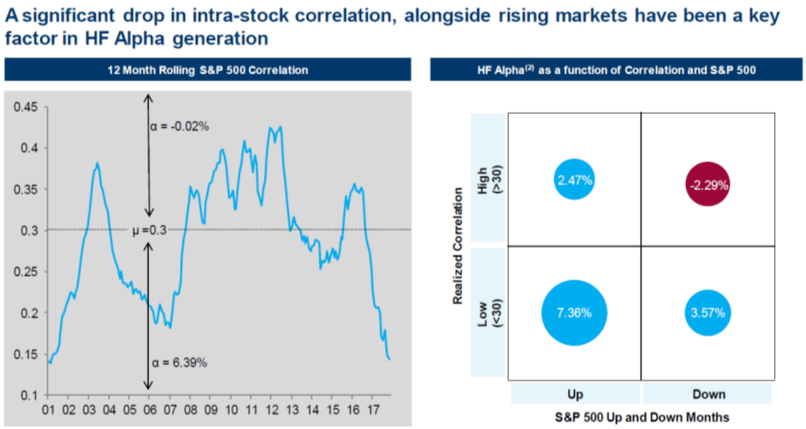
Written by
Bruno J. Schneller, CAIA & Miranda Ademaj

Contents:

"The whole problem with the world is that fools and fanatics are always so certain of themselves, and wiser people so full of doubts."
– Bertrand Russell

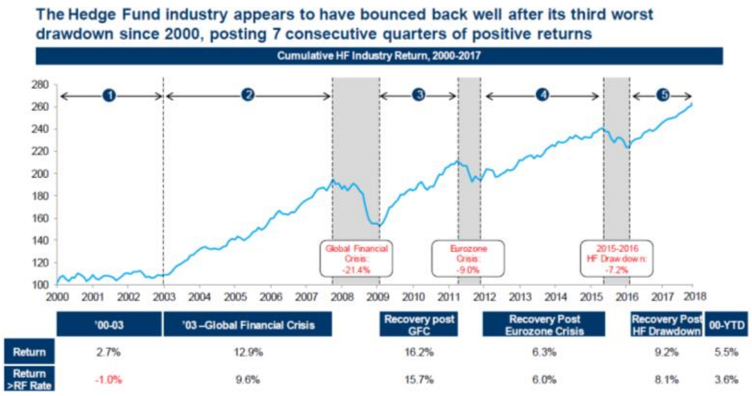
HEDGE FUNDS

Drivers of hedge fund alpha revival



Barclays

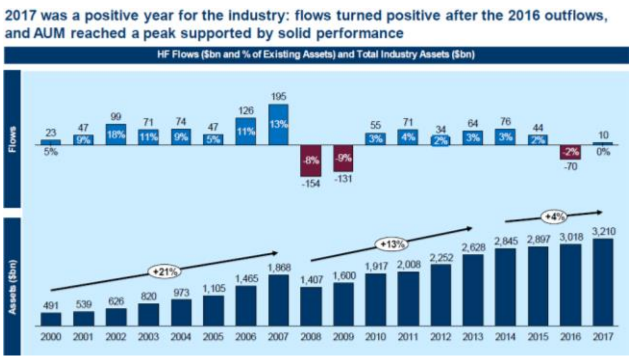
Hedge fund industry performance 2000-2017



	'00-03	'03 –Global Financial Crisis	Recovery post GFC	Recovery Post Eurozone Crisis	Recovery Post HF Drawdown	00-YTD
Return	2.7%	12.9%	16.2%	6.3%	9.2%	5.5%
Return >RF Rate	-1.0%	9.6%	15.7%	6.0%	8.1%	3.6%

Barclays

Hedge fund assets and flows



Barclays

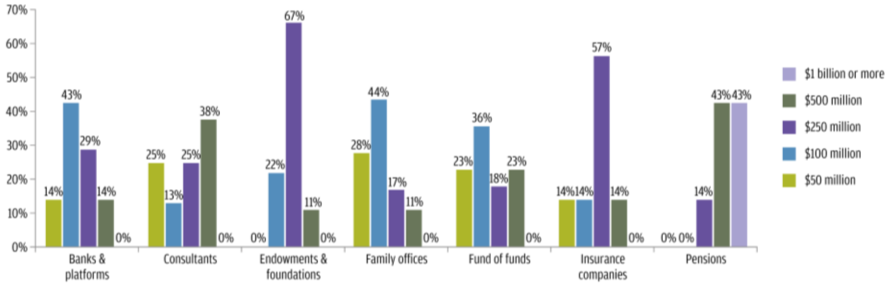
Hedge fund mojo is back with investor hopes at six-year high

Hedge funds on the heels of a surprisingly strong performance in 2017 are raising hopes for an encore. Investors expect their managers to return 8.5 percent in 2018, according to a Credit Suisse Group AG survey. That's the most enthusiasm around the smart money since 2012, when global markets were rallying in recovery mode, benefiting from a massive injection of monetary stimulus. While real-money managers have attempted to curb expectations in a world of normalizing rates and increased volatility, hedge fund outlooks have brightened after surprising on the upside last year. The average realized return was 8.5 percent in 2017, versus an allocator target of 7.3 percent, according to the survey conducted in December and January, covering 45 participants with $1.1 trillion in hedge funds.

It may be more than just a case of recency bias, however. Whipsaw trading and market-moving headlines have put hedge funds in their comfort zone, where they can suss out inefficiencies and prove their security-selection mettle. It's an advantage that's been rare in a relentless fixed-income and equity bull market pushing index-trackers higher and higher.

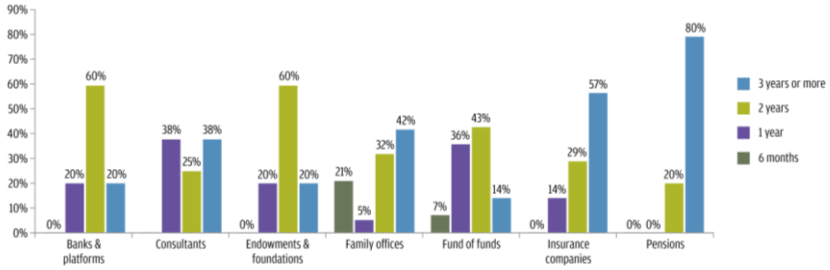
Bloomberg

Minimum AuM required to invest in a hedge fund by investor type in 2017



JP Morgan

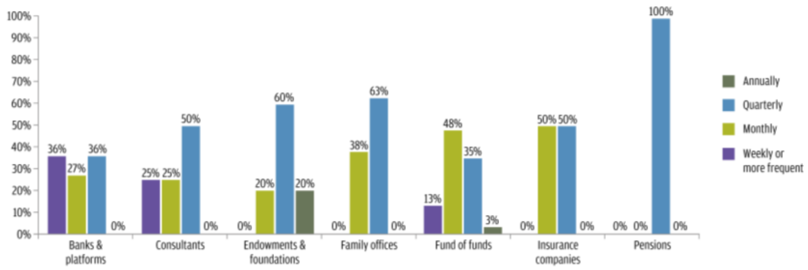
Minimum track record required to invest in a hedge fund by investor type in 2017



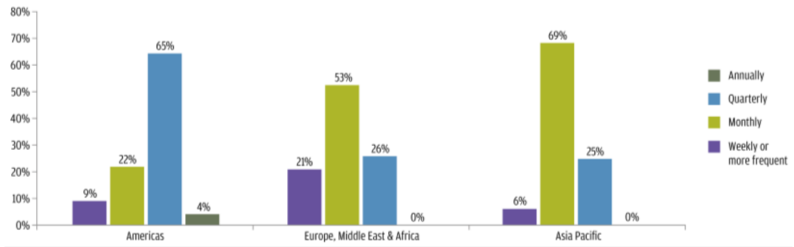
JP Morgan

Liquidity preference in 2017

by investor type



by investor region



JP Morgan

Career risk and market discipline in asset management

Andrew Ellul
Indiana University - Kelley School of Business - Department of Finance; Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI); University of Naples Federico II - CSEF - Center for Studies in Economics and Finance

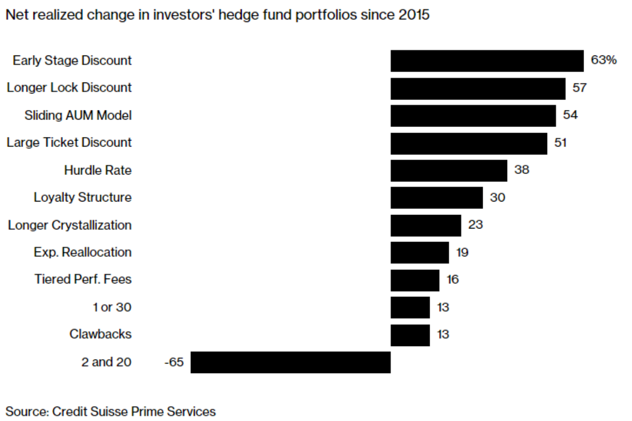
Marco Pagano
University of Naples Federico II - Department of Economics and Statistics; Centre for Studies in Economics and Finance (CSEF); Einaudi Institute for Economics and Finance (EIEF); Centre for Economic Policy Research (CEPR); European Corporate Governance Institute (ECGI)

Annalisa Scognamiglio
CSEF; University of Naples Federico II - Department of Economic and Statistical Sciences

Abstract: We establish that the labor market helps discipline asset managers via the impact of fund liquidations on their careers. Using hand-collected data on 1,948 professionals, we find that top managers working for funds liquidated after persistently poor relative performance suffer demotion entailing a yearly average compensation loss of $664,000. Scarring effects are absent when liquidations are preceded by normal performance or involve mid-level employees. Based on a model with moral hazard and adverse selection, we find that these results can be ascribed to reputation loss rather than bad luck. The findings suggest that performance-induced liquidations supplement compensation-based incentives.

SSRN

How hedge funds are winning back investors



Bloomberg

Buy losers and sell winners? Reverse your thinking and be careful about avoiding or exiting losers

The general view is that an investor should pick good managers who have had a track record of success, but a more nuance look at data suggests that buying when good managers underperform can be valuable. Whether past performance provides some indication on future success has been one of the key issues facing any investor. We now have an interesting perspective from Brad Cornell, Jason Hsu, and David Nanigian in their Journal of Portfolio Management paper, "Does Past Performance Matter in Investment Management Success".

The authors followed a simple rule that is consistent with the behavior of many investors. They looked at the previous three-year returns and then buckets the performance into winners and losers. They then tracked the performance over the next 36 months relative to a benchmark. What they found may surprise many investors.

The losers did better than the winners. Hence, a switching strategy of selling losers and holding winners may actually lead to poorer performance. Now a consultant or advisor who advocates looking to increase allocations to losers may be viewed as crazy, but the data make a compelling case that an "off with their heads" approach to poor performance is financially dangerous.

The reason for this mean reversion is still not completely clear, but the flow of money into winners may affect performance is a leading candidate. Herding hurts the future performance of past since new money flow dilutes limited alpha.

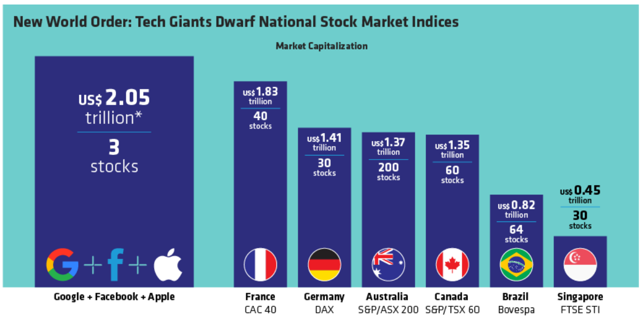
So what should be the key take-away from this research? Do your homework and make your judgements on manager allocations through criteria that look beyond performance. The authors suggest some criteria focus by other researcher such as: fund manager compensation, fund manager ownership and commitment of capital, a high active share, outsourcing of non-investment services, having PhDs in key portfolio roles, and a strong positive firm culture.

Our view is that performance is one measure of success, but it should not be the definitive criteria for any allocation decision. Know your manager beyond the numbers.

AMPHI Research and Trading

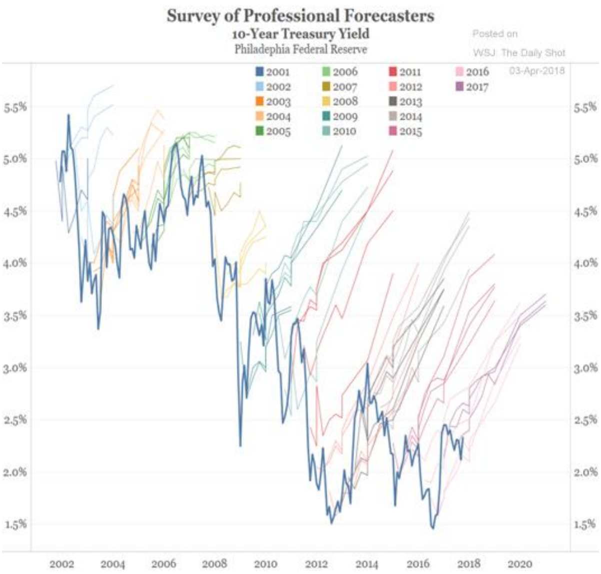
MARKETS

New world order: tech giants dwarf national stock market indices



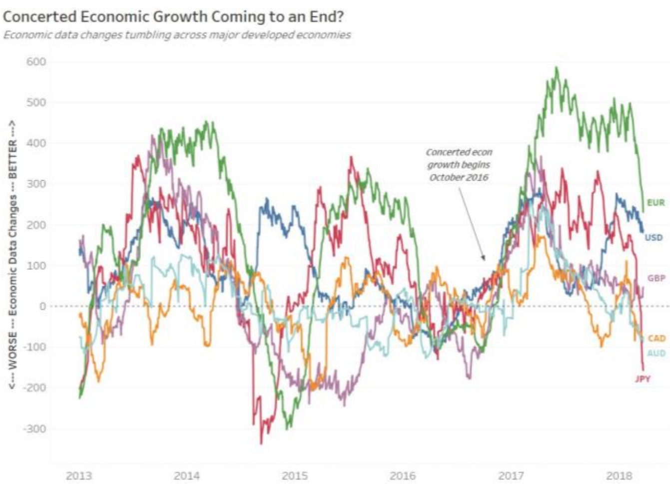
Alliance Bernstein

Analysts have been forecasting a spike in longer-dated Treasury yields for years



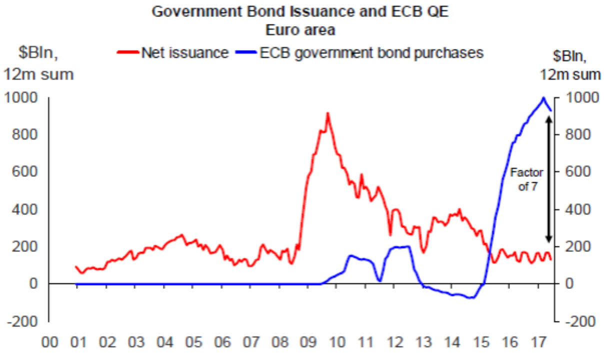
Bianco Research (via WSJ's Daily Shot)

Trade tensions a sideshow for slowing global growth



Bianco Research

ECB purchases are currently seven times net issuance

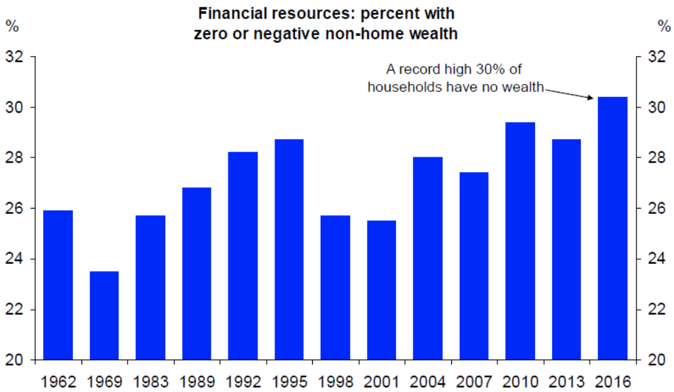


Deutsche Bank Research (via Bloomberg)

This bull market is driven by P/E expansion, unlike the last one

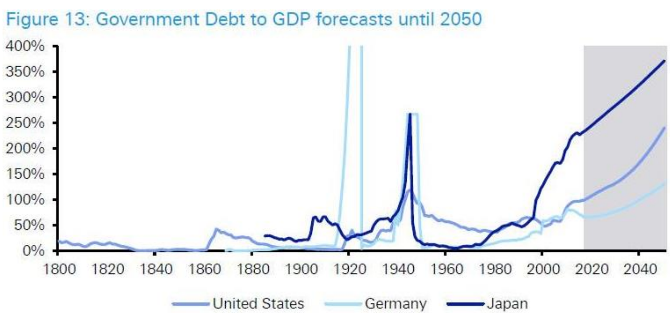
SG Cross Asset Research (via Zero Hedge)

More families than ever before have zero or negative non-home wealth



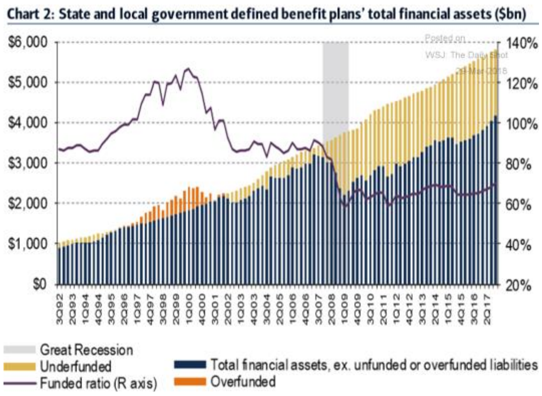
Deutsche Bank Research (via The Financial Times)

How will the market cope with the central case scenario of higher and higher government debt?



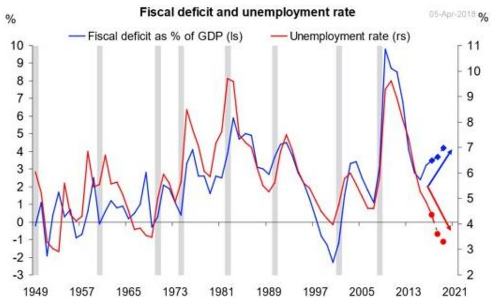
Deutsche Bank Research (via Zero Hedge)

State and local government pensions remain underfunded



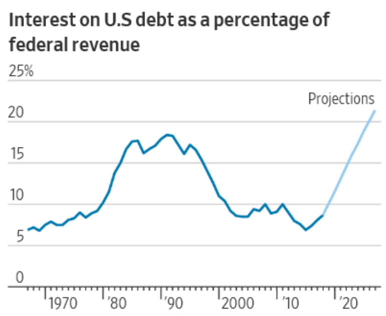
BofA Merrill Lynch (via WSJ's Daily Shot)

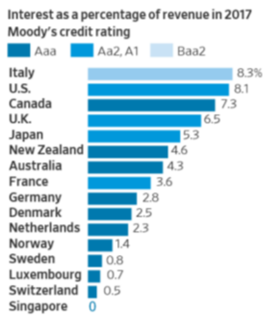
Aggressive fiscal expansion at this point in the business cycle is highly unusual



Deutsche Bank Research (via WSJ's Daily Shot)

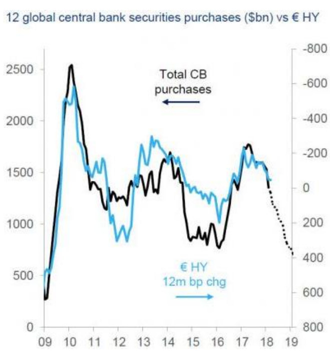
US fiscal future won't be like its carefree past

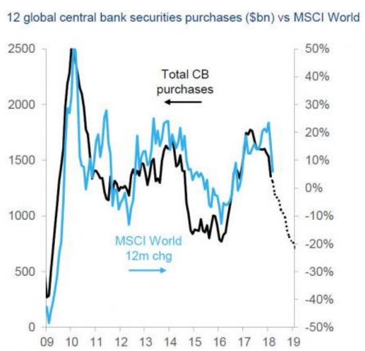




The Wall Street Journal

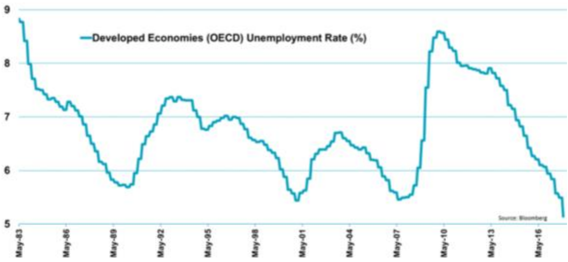
We know what central banks are doing. Why are we so slow to price that in?





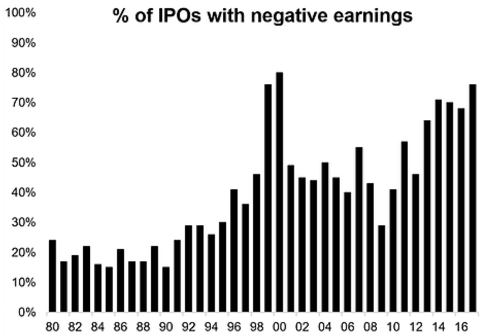
Citi Research (via Zero Hedge)

The average unemployment rate in OECD countries has fallen to a historical low of 5.16%



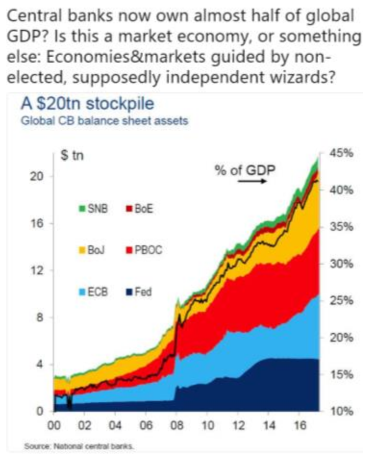
[Jeroen Blokland Financial Markets Blog]

A familiar if ominous sign in the US IPO market



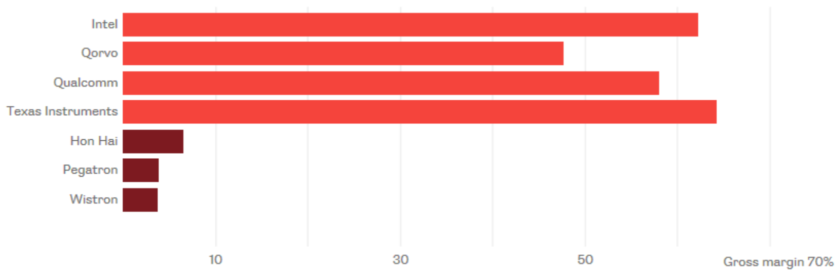
[Topdown Charts]

Central banks now own almost half of global GDP



[Harald Malmgren]

US semiconductor manufacturers provide more value to Apple's supply chain than its Asian assemblers



[Bloomberg]

Video of the month

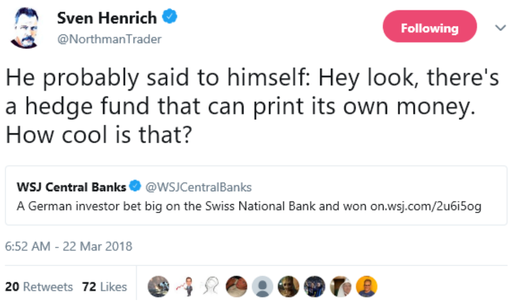
Cryptocurrencies: Last Week Tonight with John Oliver (HBO)

Digital currencies are generating a lot of excitement. John Oliver enlists Keegan-Michael Key to get potential investors equally excited about the concept of caution.

[Click to watch]

[LastWeekTonight]

Tweet of the month

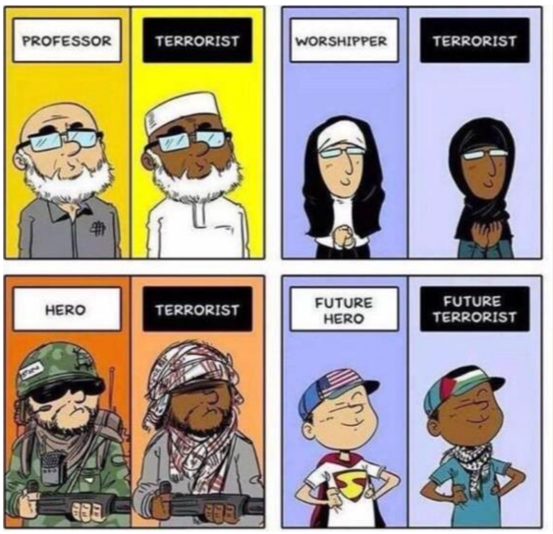


[Sven Henrich]

Joke of the month

"As we look back throughout history, it quickly becomes obvious that Christopher Columbus was the world's 1st modern central banker. He left without knowing where he was going, when he arrived he did not know where he was, and he did it all with other people's money." – Charles Gave

Cartoon of the month

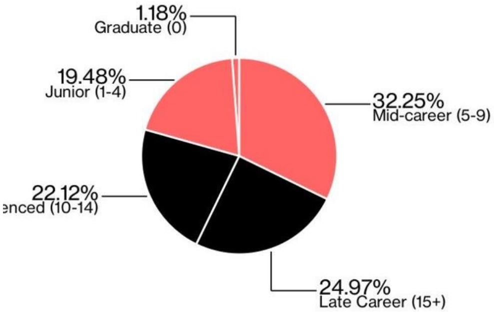


THINK TANK

Active fund managers hold fewer and fewer stocks

The Economist

Untested majority: More than half of fund managers have 9 years or experience or less

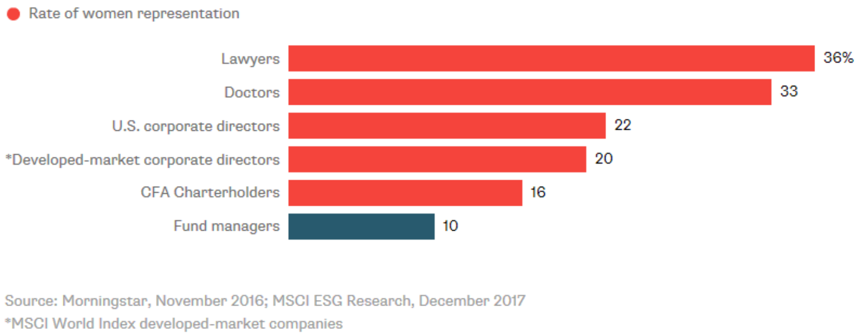


Bloomberg

The $12 trillion mutual fund men's club needs more women

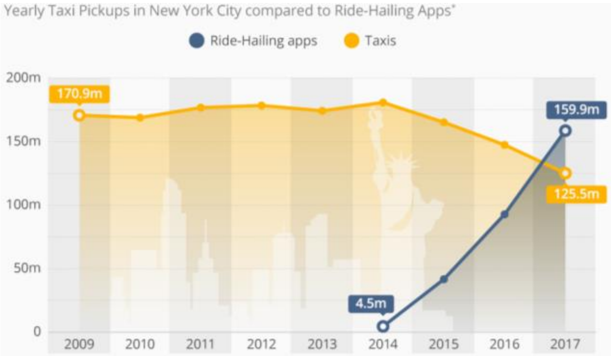
A dismal number of female managers run their funds exclusively, as in without a male co-manager

Women's professional presence in board rooms, court houses and hospitals is going up, but not so much in the world of investing



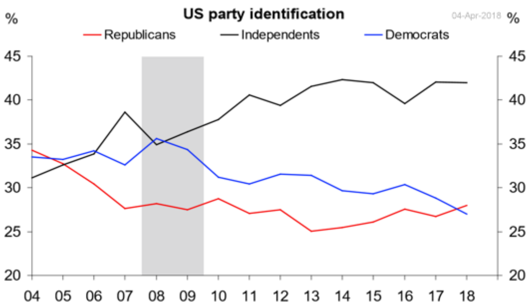
Bloomberg

Ride-hailing apps surpass regular taxis in NYC



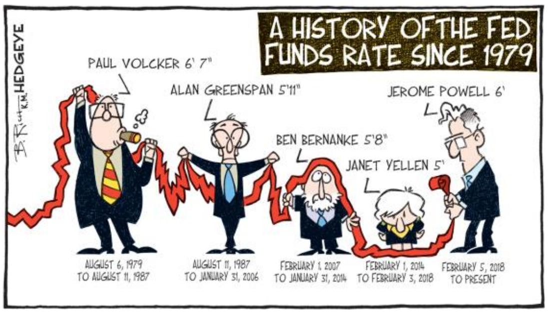
[Statista]

Americans' party affiliation: More voters identify themselves as independents



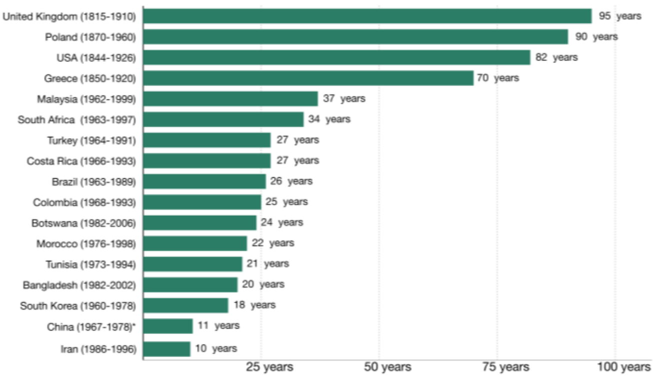
[Deutsche Bank Research] (via [WSJ's Daily Shot])

Volcker to Powell



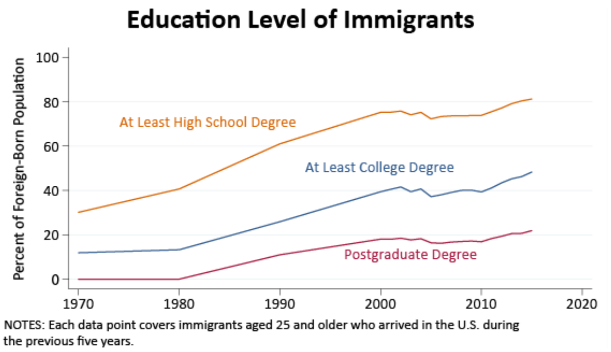
[Hedgeye]

How long did it take for fertility to fall from more than 6 children per woman to fewer than 3 children?



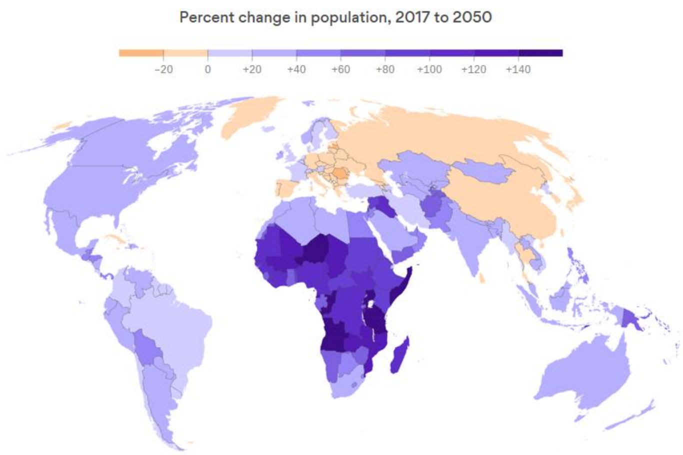
[Our World in Data]

Today's immigrants are more educated than 50 years ago



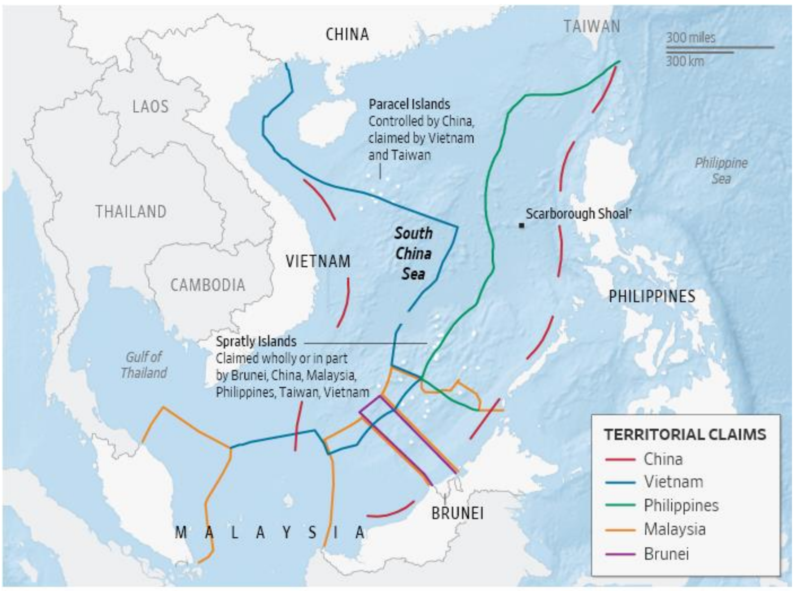
[Federal Reserve Bank of St. Louis]

Eastern Europe is shrinking before our eyes



[United Nations World Population Prospects] (via [Axios])

Territorial claims in the South China Sea



Notes: Different countries refer to the disputed Paracel and Spratly Islands by different names. China defines its claim as all waters within a 'nine-dash' line, based on a map issued by the Kuomintang government in 1947, but has never published coordinates for its precise location.

Source: Center for Strategic and International Studies (claim boundaries)

[The Wall Street Journal]

How government inaction ended the depression of 1921

As the financial crisis of 2008 took shape, the policy recommendations were not slow in coming: why, economic stability and American prosperity demand fiscal and monetary stimulus to jump-start the sick economy back to life. And so we got fiscal stimulus, as well as a program of monetary expansion without precedent in US history.

David Stockman recently noted that we have in effect had fifteen solid years of stimulus — not just the high-profile programs like the $700 billion TARP and the $800 billion in fiscal stimulus, but also $4 trillion of money printing and 165 out of 180 months in which interest rates were either falling or held at rock-bottom levels. The results have been underwhelming: the number of breadwinner jobs in the US is still two million lower than it was under Bill Clinton.

Economists of the Austrian school warned that this would happen. While other economists disagreed about whether fiscal or monetary stimulus would do the trick, the Austrians looked past this superficial debate and rejected intervention in all its forms.

The Austrians have very good theoretical reasons for opposing government stimulus programs, but those reasons are liable to remain unknown to the average person, who seldom studies economics and who even more seldom gives non-establishment opinion a fair hearing. That's why it helps to be able to point to historical examples, which are more readily accessible to the non-specialist than is economic theory. If we can point to an economy correcting itself, this alone overturns the claim that government intervention is indispensable.

Possibly the most arresting (and overlooked) example of precisely this phenomenon is the case of the depression of 1920–21, which was characterized by a collapse in production and GDP and a spike in unemployment to double-digit levels. But by the time the federal government even began considering intervention, the crisis had ended. What Commerce Secretary Herbert Hoover deferentially called "The President's Conference on Unemployment," an idea he himself had cooked up to smooth out the business cycle, convened during what turned out to be the second month of the recovery, according to the National Bureau of Economic Research (NBER).

Indeed, according to the NBER, which announces the beginnings and ends of recessions, the depression began in January 1920 and ended in July 1921.

James Grant tells the story in his important and captivating new book The Forgotten Depression — 1921: The Crash That Cured Itself. A word about the author: Grant ranks among the most brilliant of financial experts. In addition to publishing his highly regarded newsletter, *Grant's Interest Rate Observer*, for more than thirty years, Grant is a frequent (and anti-Fed) commentator on television and radio, the author of numerous other books, and a captivating speaker. We've been honored and delighted to feature him as a speaker at Mises Institute events.

What exactly were the Federal Reserve and the federal government doing during these eighteen months? The numbers don't lie: monetary policy was contractionary during the period in question. Allan Meltzer, who is not an Austrian, wrote in A History of the Federal Reserve that "principal monetary aggregates fell throughout the recession." He calculates a decline in M1 by 10.9 percent from March 1920 to January 1922, and in the monetary base by 6.4 percent from October 1920 to January 1922. "Quarterly average growth of the base," he continues, "did not become positive until second quarter 1922, nine months after the NBER trough."

The Fed raised its discount rate from 4 percent in 1919 to 7 percent in 1920 and 6 percent in 1921. By 1922, after the recovery was long since under way, it was reduced to 4 percent once again. Meanwhile, government spending also fell dramatically; as the economy emerged from the 1920–21 downturn, the budget was in the process of being reduced from $6.3 billion in 1920 to $3.2 billion in 1922. So the budget was being cut and the money supply was falling. "By the lights of Keynesian and monetarist doctrine alike," writes Grant, "no more primitive or counterproductive policies could be imagined." In addition, price deflation was more severe during 1920–21 than during any point in the Great Depression; from mid-1920 to mid-1921, the Consumer Price Index fell by 15.8 percent. We can only imagine the panic and the cries for intervention were we to observe such price movements today.

The episode fell down the proverbial memory hole, and Grant notes that he cannot find an example of a public figure ever having held up the 1920–21 example as a data point worth considering today. But although Keynesians today, now that the episode is being discussed once again, assure everyone that they are perfectly prepared to explain the episode away, in fact Keynesian economic historians in the past readily admitted that the swiftness of the recovery was something of a mystery to them, and that recovery had not been long in coming despite the absence of stimulus measures.

The policy of official inaction during the 1920–21 depression came about as a combination of circumstance and ideology. Woodrow Wilson had favored a more pronounced role for the federal government, but by the end of his term two factors made any such effort impossible. First, he was obsessed with the ratification of the Treaty of Versailles, and securing US membership in the League of Nations he had inspired. This concern eclipsed everything else. Second, a series of debilitating strokes left him unable to do much of anything by the fall of 1919, so any major domestic initiatives were out of the question. Because of the way fiscal years are dated, Wilson was in fact responsible for much of the postwar budget cutting, a substantial chunk of which occurred during the 1920–21 depression.

Warren Harding, meanwhile, was philosophically inclined to oppose government intervention and believed a downturn of this kind would work itself out if no obstacles were placed in its path. He declared in his acceptance speech at the 1920 Republican convention:

> We will attempt intelligent and courageous deflation, and strike at government borrowing which enlarges the evil, and we will attack high cost of government with every energy and facility which attend Republican capacity. We promise that relief which will attend the halting of waste and extravagance, and the renewal of the practice of public economy, not alone because it will relieve tax burdens but because it will be an example to stimulate thrift and economy in private life.
>
> Let us call to all the people for thrift and economy, for denial and sacrifice if need be, for a nationwide drive against extravagance and luxury, to a recommittal to simplicity of living, to that prudent and normal plan of life which is the health of the republic. There

> hasn't been a recovery from the waste and abnormalities of war since the story of mankind was first written, except through work and saving, through industry and denial, while needless spending and heedless extravagance have marked every decay in the history of nations.

Harding, that least fashionable of American presidents, was likewise able to look at falling prices soberly and without today's hysteria. He insisted that the commodity price deflation was unavoidable, and perhaps even salutary. "We hold that the shrinkage which has taken place is somewhat analogous to that which occurs when a balloon is punctured and the air escapes." Moreover, said Harding, depressions followed inflation "just as surely as the tides ebb and flow," but spending taxpayer money was no way to deal with the situation. "The excess of stimulation from that source is to be reckoned a cause of trouble rather than a source of cure."

Even John Skelton Williams, comptroller of the currency under Woodrow Wilson and no friend of Harding, observed that the price deflation was "inevitable," and that in any case "the country is now [1921] in many respects on a sounder basis, economically, than it has been for years." And we should look forward to the day when "the private citizen is able to acquire, at the expenditure of $1 of his hard-earned money, something approximating the quantity and quality which that dollar commanded in prewar times."

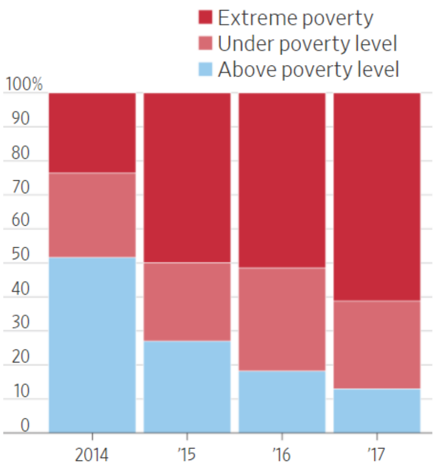
Thankfully for the reader, not only is Grant right on the history and the economics, but he also writes with a literary flair one scarcely expects from the world of financial commentary. And although he has all the facts and figures a reader could ask for, Grant is also a storyteller. This is no dry sheaf of statistics. It is full of personalities — businessmen, union bosses, presidents, economists — and relates so much more than the bare outline of the depression. Grant gives us an expert's insight into the stock market's fortunes, and those of American agriculture, industry, and more. He writes so engagingly that the reader almost doesn't realize how difficult it is to make a book about a single economic episode utterly absorbing.

The example of 1920–21 was largely overlooked, except in specialized treatments of American economic history, for many decades. The cynic may be forgiven for suspecting that its incompatibility with today's conventional wisdom, which urges demand management by experts and an ever-expanding mandate for the Fed, might have had something to do with that. Whatever the reason, it's back now, as a rebuke to the planners with their equations and the cronies with their bailouts.

The Forgotten Depression has taken its rightful place within the corpus of Austro-libertarian revisionist history, that library of works that will lead you from the dead end of conventional opinion to the fresh air of economic and historical truth.

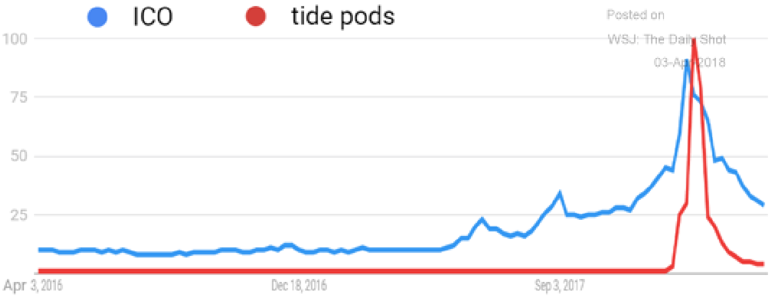
Mises Institute

More than 60% of Venezuelans now live in extreme poverty, up from around 24% in 2014



The Wall Street Journal

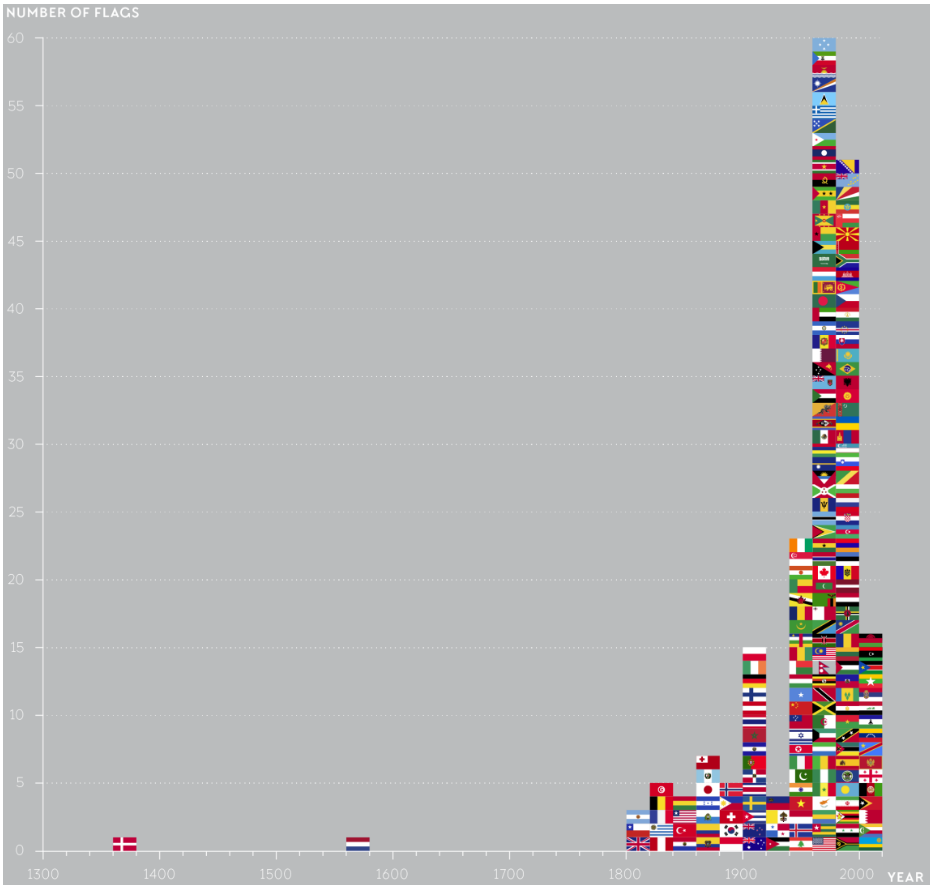
Search frequency for "ICO" and "tide pods". Peter Atwater (Financial Insyghts) calls this "peak stupid"



Financial Insyghts (via WSJ's Daily Shot)

TIME OUT

How old are national flags?



Flag Stories

Putin: "Would you like some tea..." — "WE'RE GOOD THANKS!"

John Noonan

Romanian court tells man he is not alive

In a case reminiscent of a Kafka novel, a Romanian court has ruled that a 63-year-old man is dead despite what would appear to be convincing evidence to the contrary: the man himself appearing alive and well in court. Constantin Reliu asked the court in the town of Barlad to overturn a death certificate obtained by his wife after he had spent more than a decade in Turkey, during which time he was out of contact with his family. The court told him he was too late and would have to remain officially deceased. "I am officially dead, although I'm alive," a bemused Reliu told local media outlets. "I have no income and because I am listed dead, I can't do anything."

The Guardian

Prehistoric googling

Old School

Tech buzzwords explained

- AI—regression
- Big data—data
- Blockchain—database
- Algorithm—automated decision-making
- Cloud—Internet
- Crypto—cryptocurrency
- Dark web—Onion service
- Data science—statistics done by non-statisticians
- Disruption—competition
- Viral—popular
- IoT—malware-ready device

Arvind Narayana

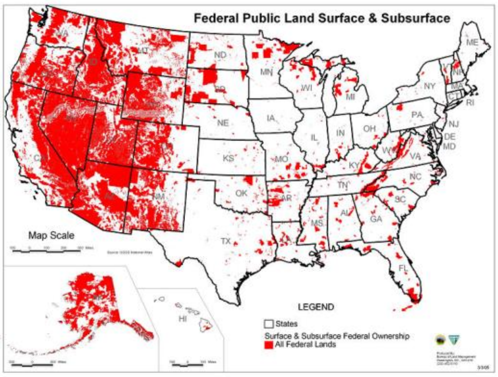
Sam Bartram, alone on the pitch not realizing the game had been abandoned 15' earlier due to thick fog

Old School

Angry traders after 800-point Dow reversal

Zero Hedge

The Federal Government owns 61% of Idaho, 64% of Utah and 84% of Nevada



[The Economic Collapse]

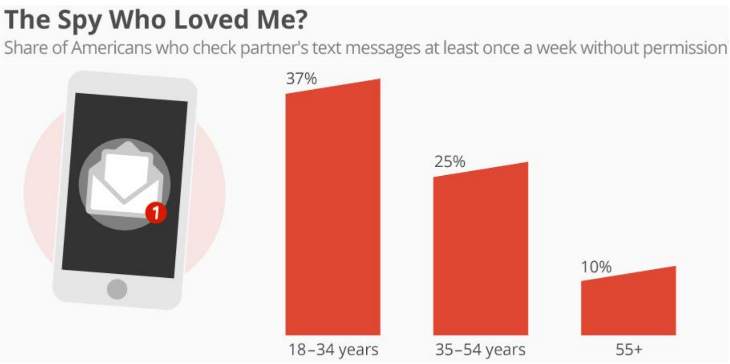
Russian stadiums to allow cocaine, cannabis and heroin at 2018 FIFA World Cup

A bureaucratic loophole will allow soccer fans attending the 2018 FIFA World Cup in Russia this summer to bring cannabis, cocaine and even heroin into events as long as attendees have the proper medical paperwork.

The Moscow-based Eurasian Economic Union (EAEU), a joint economic trade bloc of countries including Belarus, Kazakhstan and Russia, allows for certain banned narcotic and psychotropic drugs to be brought into the country with supporting medical documentation. The Russian-led union of nations gives foreign travelers the right to carry drugs including cannabis and cocaine with the proper prescription papers. These regulations allowing for travelers to import and register narcotics will be applicable as millions of soccer fans from across the world descend on Russia for 2018 World Cup events between June and July.

Newsweek

Over 1/3 of millennials secretly read their partner's messages



Statista

Spider-Man statue removed from South Korean playground because it has a gigantic boner

After erecting a statue of Spider-Man in a South Korean shopping center, artist Eunsuk Yoo met stiff resistance from the people who run it. It seems they took a long, hard look at the spectacular piece after suspicions were aroused about its suitability. The statue has now been yanked off, despite being impressively hung on that wall for almost a year. Yoo may feel he got the shaft, but one hopes he understands the thrust of the mall's decision.

It's mainly because the statue has a giant tumescent penis and people were starting to get weirded out.

As revealed in pictures from Kotaku, the statue was commissioned for the Lotte Shopping Center in Busan, South Korea, specifically near the mall's playground which... I mean, we can all agree that was probably a bad choice, right? The statue's extremely prominent phallus has mostly gone unnoticed for the past year, likely because the statue is positioned high on the wall, though from the side Spider-Man's excitement at the prospect of fighting crime is certainly visible. It seems action truly is his reward.

Recent weeks have brought a number of complaints from shoppers, and while Yoo was given the option to modify the statue (possibly with a cold shower), he has instead opted to just remove it from the building entirely rather than change his art.

Comics Alliance

Bruno J. Schneller, CAIA

Bruno J. Schneller is the CIO of Skënderbeg Alternative Investments AG. Prior to establishing the company, Bruno worked at investment boutique and fund of hedge funds pioneer BrunnerInvest AG.

Prior to BrunnerInvest AG, Bruno worked at AXA Private Equity in 2007 and at Zurich-based hedge fund Naissance Capital Ltd. in 2006.

Bruno holds a M.A. from University of St Gallen (HSG) and earned the CAIA designation in 2012. Furthermore, he is a CFA Level II candidate.

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Miranda Ademaj

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Prior to establishing the company, Miranda worked at BrunnerInvest AG and Sallfort Privatbank AG. Before that, she worked at Credit Suisse for several years.

Miranda is a CAIA candidate (Chartered Alternative Investment Analyst) and member of the global association "100 Women in Finance".

LinkedIn profile

About us

Skënderbeg Alternative Investments AG, investment adviser of the Skënderbeg Fund, began operations in December 2013 and is based in Zurich. The company consists of a team of specialists and has long-standing and financial crisis proven experience in the hedge fund sector. The team has an excellent network with direct and personal access to the top talents in the industry.

The multiple award-winning, UCITS-compliant **Skënderbeg Fund*** specializes in long/short equity strategies and offers investors access to exceptional hedge fund investments on a global scale. The fund of hedge funds was launched in February 2014 with a concentrated portfolio of 10-15 small to mid-sized managers who are typically overlooked by larger shops.

For more information on Skënderbeg Alternative Investments AG, please visit www.skenderbeg.ch.

*The Skënderbeg Fund is domiciled in Liechtenstein and not registered for public distribution outside its legal domicile.

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