

A NEW ERA OF INFRASTRUCTURE NEEDS

FRANCOIS RIVARD AND JEAN BARAM OF INNOCAP DISCUSS THE CHANGING INDUSTRY ENVIRONMENT AND THE GROWING INTEREST IN MANAGED ACCOUNT PLATFORMS



Francois Rivard, president and chief executive officer, joined Innocap in 2013. He was previously head of the Financial Product Group at National Bank of Canada where he was responsible for the engineering and distribution of structured derivatives-based investments. During his 16 years in the industry, he has held various senior functions in capital markets and wealth management.

For decades, banks have vigorously invested in finding and hiring trading talent, which has greatly benefited their investment strategy. With increased regulation around the world, namely but not limited to the Alternative Investment Fund Managers Directive, the Basel III Agreement and the Dodd-Frank Wall Street Reform and Consumer Protection Act, these financial institutions are facing the difficult decisions of changing their investment approach compounded with increased internal pressures from their portfolio managers who are seeking to spin off and establish their own investment firms.

Thus, while many of these new managers choose to launch their own funds and ultimately dedicated accounts (fund of one, on the client's balance sheet or via a managed account platform) to mitigate the different investment risks of concern to investors, others are opting from the start to use managed account platforms to establish their flagship funds. This route allows them to reduce their time to market by leveraging the resources of the platform provider. This outsourcing allows them to free their traders' mindsets to focus on generating returns.

IMPACT ON INVESTORS

Increased regulation is welcomed by most investors as it increases governance and improves the perception of the industry. In fact, these changes provide sophisticated investors with a great set of new opportunities from experienced teams. However, the decisions required to be made by pension fund managers and other asset owners must more than ever comply with strict internal policies in order to mitigate their fiduciary duty and headline risks while facing the increased scrutiny and governance of their board of directors. In other words, they are constantly questioning their current structure's capacity to mitigate the risks involved in hedge fund investments.

In many instances, talented portfolio managers have market recognition, allowing them to raise substantial assets at launch. Many of them, however, while possessing a renowned track record with their former employers, are facing difficulties in raising further capital. When excluding the current difficult economic environment, the concerns

of newborn funds, such as infrastructure, operations and governance, remain a major obstacle. In today's world, institutional investors are looking for managers with a strong profile: ethical individuals, long track records, adequate operational infrastructures, seasoned risk managers as well as specific legal and compliance know-how.

BRIDGING THE GAP

With its open architecture, Innocap has the ability to offer flexibility through multi-jurisdictional and multi-administrative structures. Characterised by its specialised legal knowledge and its operational and risk management skills, Innocap facilitates institutional investment decisions via an enhanced investment framework. The dynamic infrastructure offered provides investors with pre- and post-investment monitoring of different risks.

As well as providing managers with a structure for their clients, we also, and most importantly, meet investors' needs for a better controlled investment environment with oversight from an independent third party. From a growth perspective, managers can also rely on our knowledge and benefit from our regulatory and compliance expertise when launching new funds in different jurisdictions. Our vast experience allows them to promote their strategies in different areas of the world.

Asset owners will benefit from experienced external resources, allowing them to alleviate the burden of internal setup and ongoing

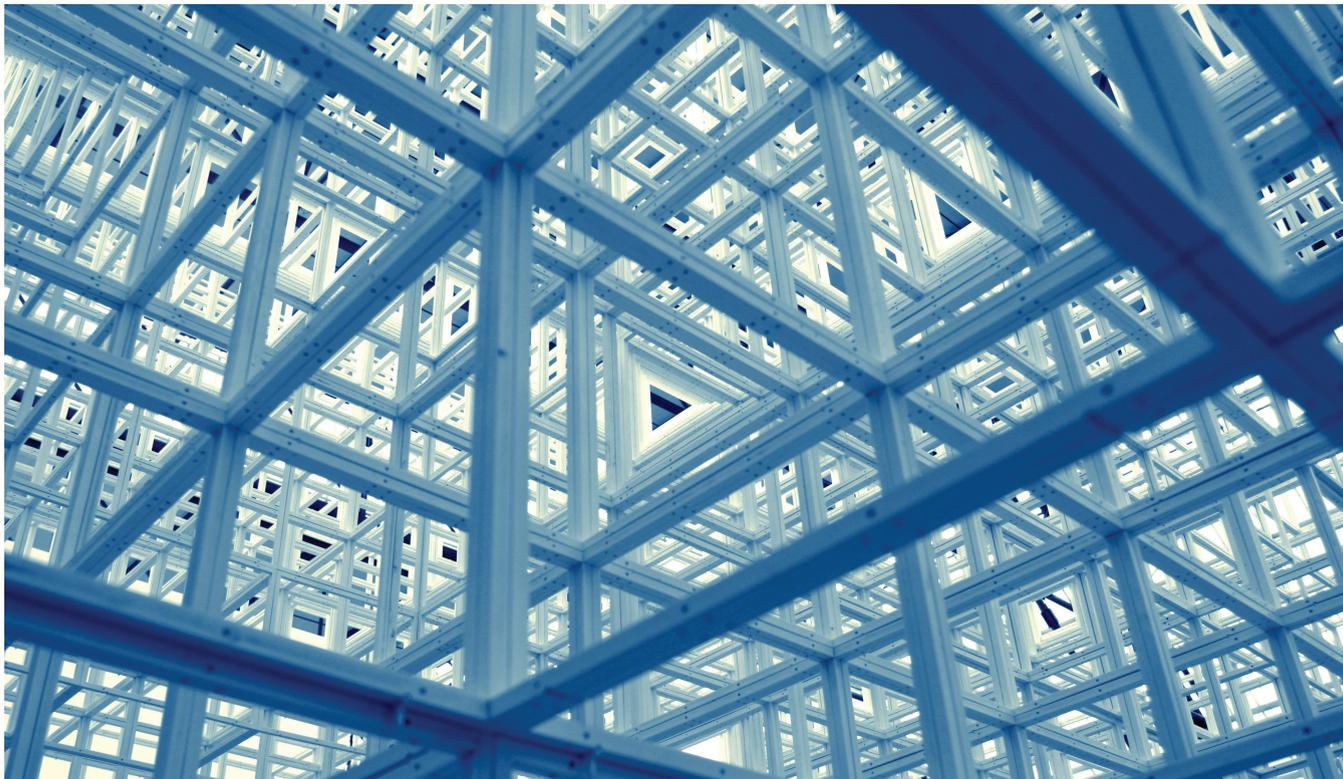
management. When creating their own funds on the platform, they eliminate co-investor risk, have the option of white labelling their investments and benefit from having a third party look after their investments. Innocap's infrastructure offers them the tools to focus on investment decisions instead of worrying about operational issues. They can also rely on Innocap to be the daily watchdog of their portfolios. While not all investors require daily updates of what is happening in their accounts, they know that we are following their portfolios and will advise them of problematic situations or concerns as and when they occur.

In closing the gap between asset owners and money managers, Innocap offers comfort through flexibility and increased control. For this to be a successful long-term

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Jean Baram, managing director, investor relations, joined Innocap in 2007. In his current role, he co-heads the investor relations and business development team. After graduating in 2002, he held several functions within the Treasury Department of the National Bank of Canada.



partnership, it is important for the setup to be beneficial for all parties, thus aligning the different interests of all those involved.

WHAT ARE THE MAJOR CHANGES INNOCAP HAS BEEN THROUGH IN THE LAST YEAR?

In its long history, Innocap has had several milestones and 2013 marks a new step in our development; starting with the nomination of François Rivard as the new president and chief executive officer of Innocap. With the expertise of our different teams coupled with Rivard’s vast experience in the asset management world, we are confident that Innocap has all the tools necessary to be an essential partner to institutional clients wishing to invest in hedge funds.

Since the beginning of the year, several positive and noteworthy events have taken place. Notably, we won a mandate with a large European institution to set up dedicated structures in Ireland. This emphasizes our multi-jurisdiction mantra, expanding on our expertise of the European Union and Canadian jurisdictions. In addition, we added State Street to our two historical administrators, HedgeServ and Custom House, demonstrating our commitment to our multi-administrator approach. We foresee that this trend will continue in the upcoming year as clients are becoming more sensitive to the specifics of each jurisdiction.

We have recently been attributed a sizeable mandate from a Canadian wealth manager for the onboarding of their new investment allocations. This represents the

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first step in a new partnership, making us the privileged infrastructure of their future investments. This comes in addition to the strong existing relationships we have with Canadian pension plans for the onboarding of complex strategies in dedicated accounts.

Whereas the past few years have shown increased demand from asset owners to access more complex strategies through managed accounts, the recent addition of simpler strategies demonstrates the industry’s acceptance and understanding of managed account benefits throughout the investment spectrum. Asset owners favour a streamlined process of controlling and assessing their investment risks.

Innocap is also contemplating accessing the US market by the end of the year. Whereas our focus has been Canada and Europe over the past few years, we see increased interest from US asset owners to invest in hedge funds through managed accounts. We strongly believe that our geographical position, coupled with our experience in servicing some of the largest and most sophisticated pension plans would put us in a favourable position in the US.

“We are fortunate to have two parent companies, BNP Paribas and National Bank of Canada, believing in and supporting our business which is important to us and our clients. Throughout the years, we have built a world class organisation with a reputable international brand. We now need to build on that success and have other investors benefit from that infrastructure,” stated Innocap’s president and chief executive officer, François Rivard. ■