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Hedge Fund ALERT

## Coronavirus Leaving Managers in Limbo

The coronavirus outbreak's impact on the hedge fund industry continues to deepen.

With financial markets cratering and travel restrictions growing, the environment for new launches was upended this week. Fund operators and prime brokers also postponed or canceled numerous gatherings, following a string of similar moves last week.

Meanwhile, word was spreading about losses at several funds that write equity options. And managers were scrambling to understand potential changes in their arrangements with vendors.

Some managers with funds in the pipeline are expressing eagerness to start trading. After all, the March 9 stock-market selloff was the worst since 2008, presenting what many perceive to be extraordinary bargains. "I imagine funds looking to launch are rushing to do so, as they want to start at what they deem to be a bottom," one prime-brokerage executive said.

But there's no guarantee that they'll be able to raise the needed capital. Face-to-face meetings with investors have slowed or stopped in many cases. Some institutional investors also are prioritizing reviews of their own portfolios over pitches from new managers.

There's also the question of whether limited partners will want to commit capital during such a steep downturn. "Does this [volatility] scare people back into the asset class, or do people go to cash? If there's no dollars coming in, there's no way to launch," another prime-brokerage professional said.

Nonetheless, one long-bias equity specialist who is aiming to start trading by June 30 insisted that it's still too early to know how the outlook for new vehicles has changed. And a consultant who advises startup funds said he still hasn't seen a change in the launch calendar.

Elsewhere in the market, one recruiter said on March 9 that all of her upcoming meetings were canceled.

Minneapolis-based **Varde Partners**, which had been planning to hold its annual investor meeting in New York on April 2, will host a webcast instead. And New York-based **Angelo, Gordon & Co.** scrapped a gathering that it had scheduled for March 11 in Minneapolis.

**Morgan Stanley** rescheduled its "European Manager Round- table" in New York from March 19 to Nov. 4, while **AIM Summit** postponed an event that was set for March 11-12 in Mumbai.

The **Hedge Fund Association** is delaying two New York events. A briefing on seed-capital investments t that had been scheduled for March 18 will move to May. A discussion on U.K. policy is moving from March 25 to June.

Among prime brokers, **Goldman Sachs** called off a high- profile capital-raising event that was supposed to take place in Miami this week. **Credit Suisse** last week pulled the plug on its annual capital-introduction event in Palm Beach, Fla. And **BTIG** canceled an event in Chicago.

Those moves came as numerous companies worldwide imposed travel limits on employees. In the hedge fund world, **Carrhae Capital** and **Man Group** recently took such steps. New York-based **Tremblant Capital** also had its entire staff work from remote locations on March 5 in a test of its business-continuity plan. **Point72 Asset Management** sent some employees home and restricted travel after a staffer in its New York office tested positive for coronavirus.

A **Blackrock** employee also tested positive, according to **Bloomberg.**

Meanwhile, hedge funds that write equity options booked steep losses for February. The $135 million Tianyou Fund, run by **Tianyou Asset Management**, dropped 38.5% for the month. **Aleph Strategies'** $41 million Aleph Options program was down 50%. And **Alpha Z Advisors'** $11 million Alpha Z Futures Fund was down 43.5%.

Such vehicles generally collect premiums for selling options that pay out if equities fall by certain amounts. When the mar- ket drops like it did in late February, the managers often seek to buy back the contracts before they pay out or take offsetting positions, but at much higher prices.

"Managers that look at historical numbers were often caught off guard by the severity of the move down," said **Greg Taunt**, a marketer at managed-futures data company **IASG**. "Few man- agers came out unscathed. The ones that did went to cash early, were short term or were able to adjust more quickly."

One options fund that made money was Global Sigma Group's $375 million **Global Sigma Plus**, with a

1.2% gain for the month. The reason: Recognizing that the vehicle's systematic program wouldn't correctly calculate the market's reaction to the coronavirus crisis, chief investment officer **Hanming Rao** overrode those tools to trade on his own discretion beginning Feb. 24, just before the market's steepest losses set in.

Elsewhere, consultants are urging their clients to familiarize themselves with the terms of their contracts with prime brokers and other service providers. **Michael Katz**, whose **Quadrangle Consulting** helps managers track relationships with those firms, said one of his clients suffered a drawdown that will cause it to default on a loan. But the client doesn't know if the default will occur at mid-month or the end of the month.

Katz remembers what happened during the 2007-2008 market crash, when prime brokers hiked margin requirements, called loans or charged more for their services. "There's a lot going on right now behind the scenes," he said. "We are seeing liquidity drying up. Markets are unpredictable, but your con- tract rights are not. They are clear."