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Opalesque Exclusive: London-based UCITS manager has no fear of Brexit

Benedicte Gravrand, Opalesque Geneva for *New Managers*:

A former Barclays executive talks about starting a UCITS boutique in London, investing in emerging market debt, and the impact of Brexit on his funds.

Before founding Quadra Capital, French-born manager Guillaume Touze spent most of his career with the Barclays Group, which he joined in the 90s. He ended up running Barclay's asset management business in Europe. As the firm launched its first UCITS in 1998, around the start of the Euro currency, much of his experience lies in managing UCITS.

In 2010, a number of friends within the asset management and insurance industries told him they wanted to invest in hedge funds, but would prefer a boutique that supplied vehicles with much more liquidity. Liquidity was not exactly what hedge funds normally offered back then.

"The idea stayed in my mind," he tells *Opalesque*. "When Barclays became less exciting in 2013, we talked about building something that would be a slightly unusual animal, with several institutional investors at the beginning, that would go the UCITS route to provide liquid alternatives to the European investor base, with a vehicle out of Luxembourg that would be flexible and useable for everyone." And Touze did just that: exploit the niche that differentiates from hedge funds' typical offshore domiciles and illiquid terms.

"We hoped to create the best of both world, i.e., the agility of the boutique combined with the institutional setup," he adds.

At the time of creating the firm in 2014, he and his partners were entering their forties. When he told a friend about it, the friend suggested the name "Quadra Capital." He later became a client.

"Rather than using the initials of my four children, I decided to use that name. I also liked the idea that the name of the firm came from one of our investors!" Touze says.

UCITS

In the summer of 2015, the firm launched a global long/short equity strategy, which is run by Paul-Georges Moucan, a manager with a long experience in global equities.

At the same time, Quadra launched an emerging markets (EM) strategy with a primary focus on fixed income, also wrapped in a UCITS V vehicle.

Since the developed market's fixed income market does not yield much nowadays, investors are looking at emerging market debt, and typically, indices that group several countries.

That would have been fine ten years ago, but, "today, the emerging market world is a much more diverse environment with higher dispersion," he says. Some countries have achieved stability and have less default risk, while others face political instability or religious issues, leading to volatility in the markets, otherwise known as tail risk in a portfolio. And while institutional investors in Europe need returns to meet their liabilities, many cannot easily invest in emerging markets. The EM strategy that Quadra Capital launched is one where investors can choose the countries in which to invest, rather than riding an all inclusive index.

"On top of that, the spread, what we call the 'carry' between the rates paid by occidental countries and paid by EM countries is quite substantial today; it's around 500-600 basis points," he continues. "So without necessarily taking too much additional risk, you can commit money to EM in a smart way, especially provided you are a decent FX manager. We have put in place a low volatility strategy, as per our philosophy. So we can buy emerging market debt within a UCITS SICAV which has low volatility."

A UCITS (Undertakings for Collective Investment in Transferable Securities) is a mutual fund based in the European Union, which can provide alternative strategies. UCITS funds can be registered in Europe and sold to investors worldwide using unified regulatory and investor protection requirements. The UCITS Alternative Index Global is down 2.20% YTD after returning +0.06% in August.

Brexit

Quadra will not be affected by Brexit, he says, because the funds are domiciled in Luxembourg. Furthermore, the boutique is authorised by the FCA (UK Financial Conduct Authority) and holds a Luxembourg licence. "We are managing funds out of London for European clients, but we have all the European licences that matter and it's almost as if we were a South African or US manager with a passport to do business in Europe. The funds can passport into other EU member states but we, the manager, will need to see how our licence will be treated by the rest of Europe during the negotiations."

"You could even argue that there could be positive implications, because over the last months, the managers that have really suffered are the UK-based managers who manage UK money," he adds, "and our investments are global. So we are not exposed to the UK bond and UK equity markets that much. Those that are, are the ones who suffered substantial redemptions."

He believes that going forward, Quadra may benefit from Brexit because of the firm's initial setup, which is open and international. "The UCITS passports enable us to sell our products around Europe and is recognised around the world." And no, he will not leave London because of Brexit, for he loves the city's buzz and 'can-do' attitude.

After spending 20 years in a large firm, his move into entrepreneurship was a lot of fun and a steep learning curve, he says. "It's not an easy path. Provided you have a great bunch of people, it's a fantastic experience that I would definitely recommend."