A Brodie Consulting publication in conjunction with RQC Group

October 2021

The Hedge

Looking back at the past month's news and views

Hedge funds outperform global markets

September was a volatile month on multiple fronts as inflation, increasingly hawkish Fed and Evergrande concerns all weighed on global markets, with the S&P 500 falling 4.8%.

In this environment, hedge funds showed great resilience, with the **HFRI Fund Weighted Composite Index** up +0.13% for the month, taking the year-to-date performance to +9.49%.

Relative Value was the best performing strategy up +0.95%, with the bulk of the sub-strategies in positive territory. This was led, in particular, by the **Yield Alternatives Index**, which was up +5.46%.

Macro was one of the strongest performing strategies up +0.54%, driven largely by the **Commodity Index**, which was up +5.18% in September, outweighing **Discretionary Thematic** that was down -0.40%.

Event Driven was marginally positive, up +0.04%, although the **Activist Index** dropped -2.78%.

Equities was the one strategy to fall, with the **HFRI Equity Hedge Index** down -0.35%, as **Quantitative Directional** dropped -3.62% and **Multi-Strategy** -1.54%, although countering this was **Energy Basic Materials** up +4.11%.

$8,000

Cost of a single ticket to the 2021 SALT conference

$110 million

SEC award to a whistleblower, its 2nd largest payout

Converging on Private Equity

As hedge funds hunt for new and interesting investment ideas, they are increasingly turning their attention to private deals. According to **CNBC**, they are participating in markets that more typically 'involve venture capital and private equity funds.' Funds such as **Tiger Global Management, Coatue Management** and **Altimeter** Capital Management have vehicles solely dedicated to private investment, writes the **Financial Times**.

In early September, **Goldman Sachs** published its widely reported ***Hedge Funds and the Convergence of Private and Public Equity Investments*** paper, in which it wrote that there had been 770 private deals since the start of the year, worth $153 billion. In comparison, the previous year had seen 753 deals in total, with a far lower value of $96 billion. Perhaps this is not surprising, given how the year played out, but this is still a huge uptick on previous years, when the average number of deals per year was around 50.

The most active player in this market is Tiger Global, which **Dealroom**, the data provider firm, worked out to have been involved in over 20 European start-ups year-to-date.

Most deals have tended to focus on US firms, but the Goldman paper reports that there had been a rise in fund investments in APAC headquartered companies, particularly those in China.

Upcoming events

12-15 October 2021
AIMA Global Investor Forum 2021
20-22 October 2021
Alts Invest. Pairing Private Markets with Asset Owners
25-27 October 2021
Global ARC Boston
10-11 November 2021
HedgeweekLIVE European Emerging Managers Summit

Click here to see further events in 2021

Petershill Partners plc.

On 28 September **Goldman Sachs** successfully listed its **Petershill Partners'** business, which takes minority stakes in alternative asset managers. The proceeds from the £1.2 billion IPO will be used for funding and buying more stakes in alternative asset managers, which will be added to Petershill's existing holdings that include, amongst others, **Caxton Associates, Lakewood Capital Management** and **Pelham Capital**. This listing follows the successful IPO of **Bridgepoint Group Plc**.

News (cont.)

Profiting from energy dislocations

With natural gas prices hitting highs, oil at over $80 a barrel and carbon credits touching record levels, commodity and futures funds have been particularly active. Portfolio managers bought the equivalent of 42 million barrels of the six most important petroleum futures and options in the week to September 28, according to exchange data. The **Financial Times** reports that managers, such as **Systematica Investments, Florin Court Capital** and **Gresham Investment Manager**, have all been profiting from positions in UK natural gas and German electricity.

Amid the restrictions on supply and use of coal powered stations this winter, hedge funds have also been moving into the carbon credit space, causing ructions among some of the longer-term participants. One of these 'participants' is **Stromio**, a German energy discounter, who complained to **ESMA** that the European carbon market is to 'combat climate change at the lowest possible cost instead of being a casino for hedge funds.' This comes as the EU allowance hits a high of €65 a tonne for the first time and the UK's Emissions Trading Scheme £76 a tonne. One of ***Pierre Andurand's*** funds is up over 50% through to the end of August, according to **Bloomberg**, having gained 154% in 2020, with the returns almost entirely coming from emissions. Recent data from ESMA show financial funds held around 42 million net long positions, compared with only 28 million in the same period last year.

But it is also easy to get it very wrong in commodities – the history books are full of such examples. One manager that has been on the wrong side of the natural gas trade was Miami based **Statar Capital**, a futures focused manager, which according to the **Financial Times** suffered a $130 million hit in early September.

Large fund of funds outperform small in H1

Funds of hedge funds had a strong first half, according to **Citco's H1 2021 Update**. The report, which looks at Citco administered funds, reveals that 92% of funds, both big and small, reported positive figures for the period. The best performers were interestingly the larger portfolios, particularly those managers with 50-plus holding that outperformed the smaller more concentrated portfolios. Encouragingly, the Citco funds also saw $2.5 billion new capital inflows during the half.

127 years for asset management to achieve gender parity…

It is not just hedge funds where there is limited gender parity - we wrote about this last month. It is also the case across the entire asset management sector.

The recently released ***Citywire Alpha Female Report 2021*** looks at 16,353 active managers, of which only 1,932 are female. This is a mere 11.8%! There may well have been an encouraging increase in gender parity year-on-year, but it would still take 127-years to reach 50:50 at the current rate of progress. Clearly more needs to be done across the sector, both in the traditional and alternative spaces.

News (cont.)

Who and what is Tiger Global?

New York based **Tiger Global** is one of the largest, and best known, hedge fund managers in the world, with assets of around $80 billion, and extensive public and private investments in global internet, software, consumer and financial technologies.

The firm may well be described by some as *"hyperactive," "aggressive"* and *"brilliant,"* but what is beyond doubt is Tiger Global's ability to move fast and its tremendous success as an investor, which has rewritten the playbook of how hedge funds are approaching private companies.

The size of the business, speed of investment deployment and global range of its reach are traits that have become Tiger Global's signature.

During the second quarter of this year, the firm averaged 1.3 deals a day and through to the middle of August it had invested in more than 170 venture start-ups in this year alone, according to data from research firm, **CB Insights**. The **Evening Standard** has written that the speed at which Tiger Global moves on any given deal has even forced VCs to change the way that they approach new investments, pushing them to move faster and do less due diligence.

With more than 120 unicorns in its portfolios, Tiger Global's approach clear works and today it is the number one unicorn investor in the world, followed by **SoftBank**.

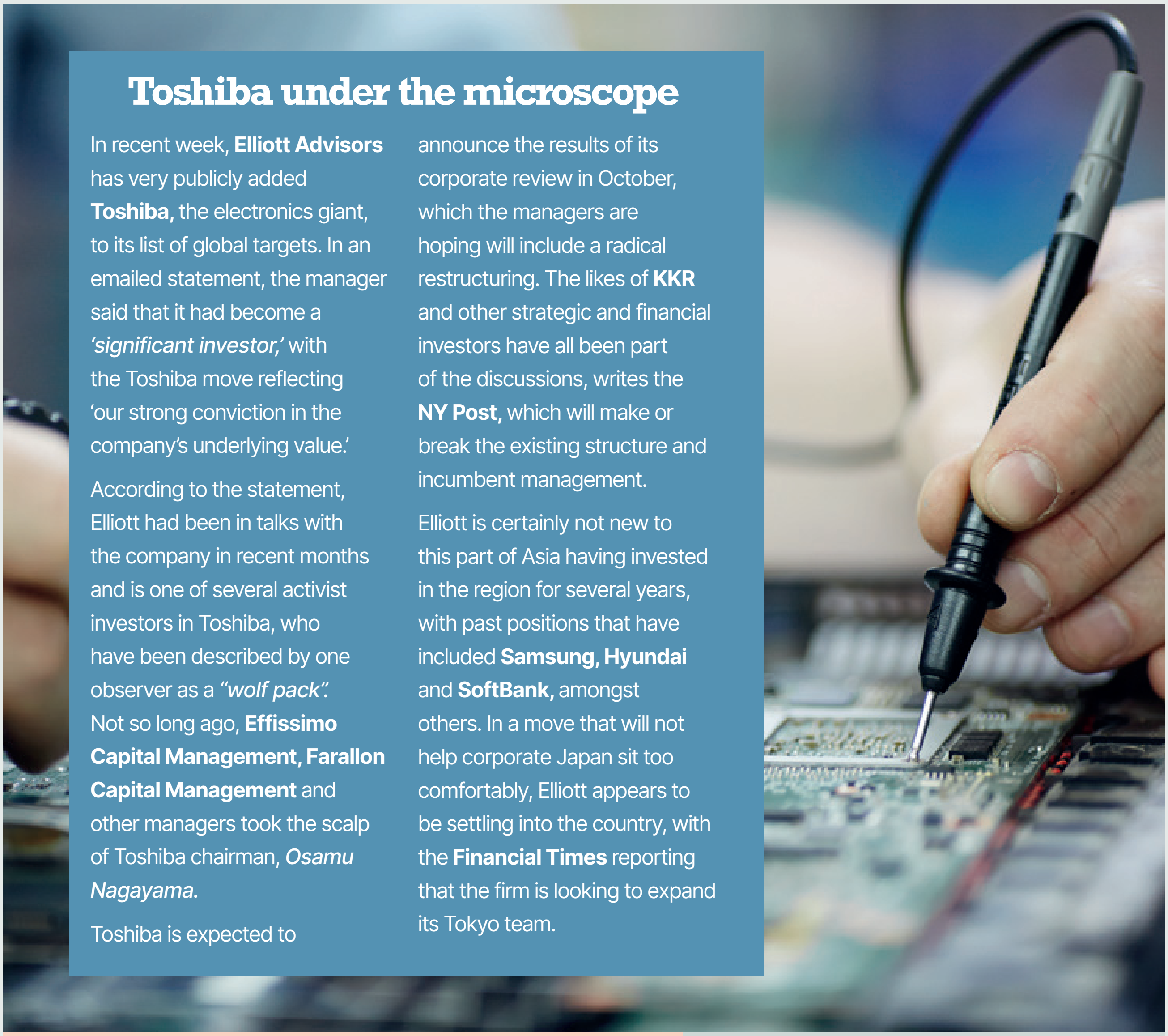
Tiger Global was established in 2001 by ***Chase Coleman III*** as **Tiger Technology**, with seed investment from unsurprisingly, given the firm's Tiger moniker, ***Julian Robertson***. Coleman is one of the original **Tiger Cubs**, having started his career at **Tiger Management** as a research analyst in 1997 before making Partner in only a few years.

Nowadays, Coleman is both partner of the firm and portfolio manager for the public equity and private equity businesses. Intriguingly, he is cut from the old school manager cloth of privacy, having never spoken to the press or even speaking at conferences. This is impressive given the public nature of the firm's positions.

Tiger Global's focus has largely been the US, China and India, although it has been very busy in Europe this year. With its China heavy portfolio, China's clampdown on private enterprise will inevitably have had an impact on Tiger's portfolio – Tiger Global had $6.4 billion China ADRs end of the second quarter – but it is unlikely to leave the market anytime soon, with its track record as a long-term investor.

According to **Institutional Investor,** the firm's flagship fund, Tiger Global Opportunities, has compounded at 21 per cent annually on a net basis for 20 years, making it one of the most successful funds over that time.

Activism



Toshiba under the microscope

In recent week, **Elliott Advisors** has very publicly added **Toshiba,** the electronics giant, to its list of global targets. In an emailed statement, the manager said that it had become a *'significant investor,'* with the Toshiba move reflecting 'our strong conviction in the company's underlying value.'

According to the statement, Elliott had been in talks with the company in recent months and is one of several activist investors in Toshiba, who have been described by one observer as a *"wolf pack".* Not so long ago, **Effissimo Capital Management, Farallon Capital Management** and other managers took the scalp of Toshiba chairman, *Osamu Nagayama.*

Toshiba is expected to announce the results of its corporate review in October, which the managers are hoping will include a radical restructuring. The likes of **KKR** and other strategic and financial investors have all been part of the discussions, writes the **NY Post,** which will make or break the existing structure and incumbent management.

Elliott is certainly not new to this part of Asia having invested in the region for several years, with past positions that have included **Samsung, Hyundai** and **SoftBank,** amongst others. In a move that will not help corporate Japan sit too comfortably, Elliott appears to be settling into the country, with the **Financial Times** reporting that the firm is looking to expand its Tokyo team.

Elliott seeks SSE breakup

Elliott Advisors again wins the award for generating the most activist column inches. In the UK, it has started to build a stake in **SSE**, a move that **The Times** believes *'will set-off alarm bells in Whitehall.'* Elliott wants the Scottish utility to sell or separate its renewable portfolio. This follows a similar playbook that it employed with **EDP Energias de Portugal SA**, where the listed renewable arm's shares more than tripled in the past four years, writes **Bloomberg.**

Where this becomes tricky for Whitehall is SSE's role in the UK's national infrastructure, so not so helpful for Elliott was a comment from the UK business secretary, ***Kwasi Kwarteng,*** who said that governments are duty bound to *"legislate and intervene"* to protect the environment.

Bluebell & GSK

Another activist to add its name to the **GlaxoSmithKline** shareholder roster is **Bluebell Capital Partners.** In a letter to the Chairman, *Jonathan Symonds,* the manager has demanded that the incumbent CEO, *Emma Walmsley,* should reapply for her job. This is similar to Elliott Advisor's request earlier this year. Such a move, they believe, would give the company *'renewed credibility, both internally and externally.'* In response to the letter, GSK said that they *'continue to engage extensively [with] shareholders with over 500 meetings so far this year.'*

Crypto

SALT back with a bang

As a long-term hedge fund marketer, it is wonderful to see conferences back on and there is no bigger conference in the hedge fund space than **SALT,** which returned with a *'Scaramucci bang'.*

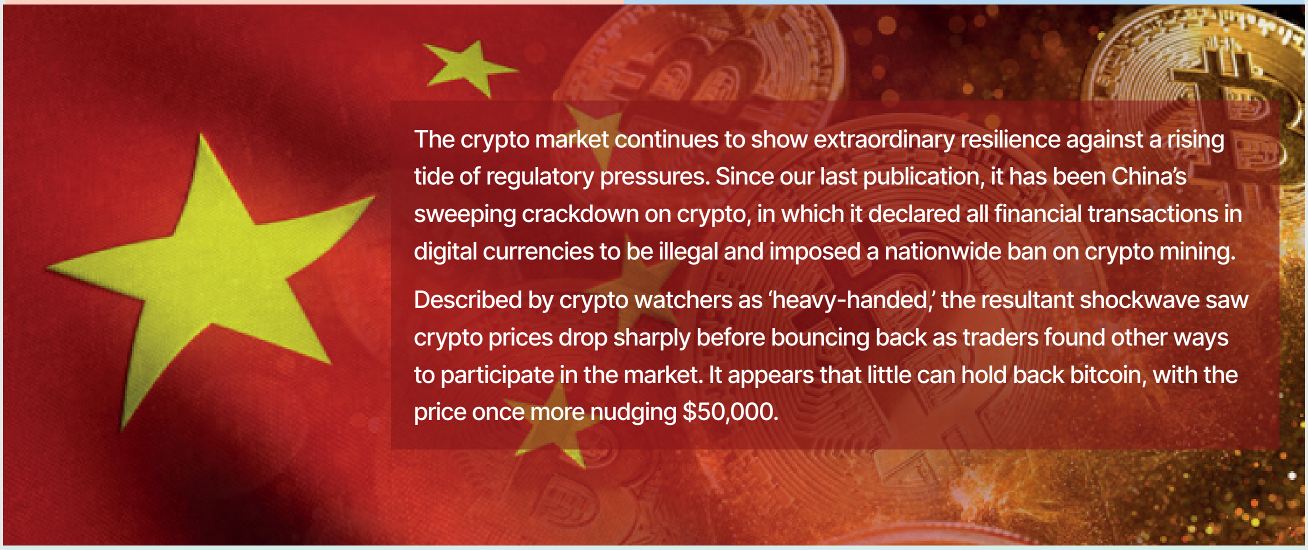
Crypto was SALT's central theme, with lead sponsors including digital firms, **FTX, NYDOG** and **Circle**. The event, which moved to corporate Manhattan from its more usual salubrious Las Vegas location of pool parties and gambling, attracted a crowd of around 2,300, with a further 700 joining remotely.

Tickets were definitely not cheap at $8,000, although according to a **Reuters** report many were given away for free. Speakers this year including such hedge fund luminaries as **Steve Cohen, Marc Lasry, Dan Loeb, Mike Novogratz** and **Ray Dalio**, so the audience certainly got plenty of bang for their buck.

The 'cryptomaniacs'

Some of the biggest names in hedge funds proved to be crypto advocates at SALT. One of whom was ***Steve Cohen,*** who not so long-ago had been a 'doubter,' but had been converted by his son, who he described as a ***"cryptomaniac."*** Cohen also said that he had recently invested in **Radki,** a quantitative trader across cryptocurrencies, and added that **Point72** has been build up its crypto trading capabilities. He concluded that it would be ***"remiss"*** of him to ignore the crypto market.

Another crypto 'fan' is **Bridgewater's *Ray Dalio,*** who said that he has more crypto than gold. He sees the asset as a portfolio diversifier. But he also included a health-warning that regulators are likely to ***"kill"*** the digital currency should it get too successful.



The crypto market continues to show extraordinary resilience against a rising tide of regulatory pressures. Since our last publication, it has been China's sweeping crackdown on crypto, in which it declared all financial transactions in digital currencies to be illegal and imposed a nationwide ban on crypto mining.

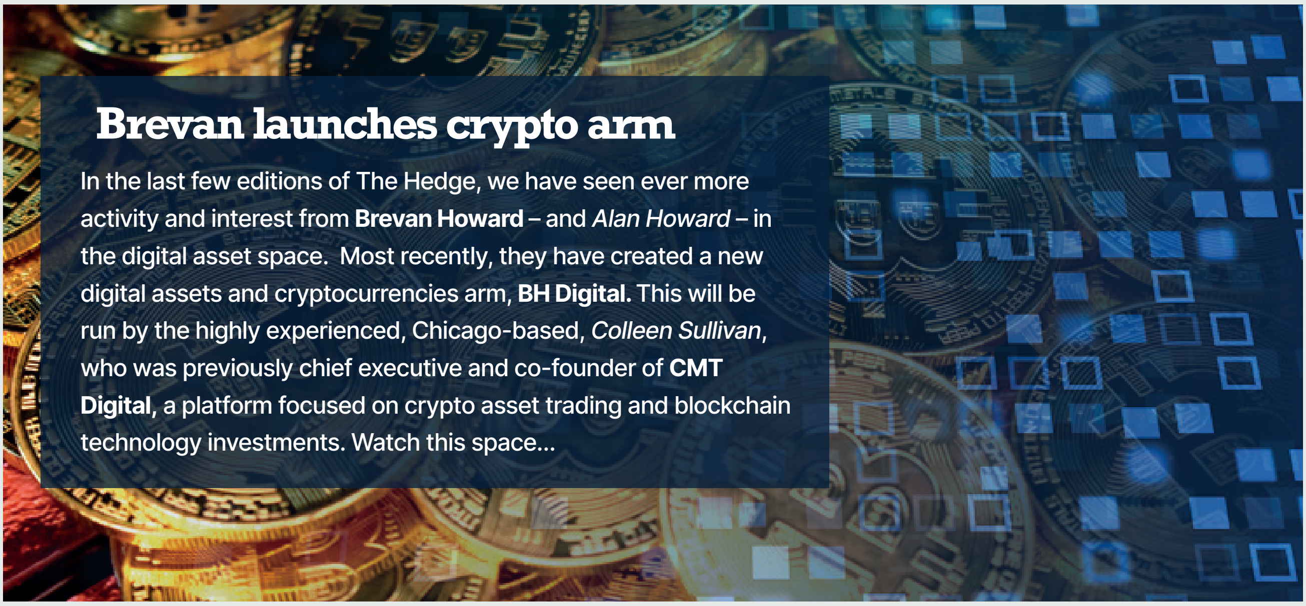
Described by crypto watchers as 'heavy-handed,' the resultant shockwave saw crypto prices drop sharply before bouncing back as traders found other ways to participate in the market. It appears that little can hold back bitcoin, with the price once more nudging $50,000.

Gensler takes aim at crypto and SPAC markets

The SEC's war of words on crypto continued this month, with ***Gary Genser,* SEC** chairman, saying that this ***"will not end well"*** if the sector remains unregulated. And while he ***'never quite said that he intends to bring cryptocurrencies under SEC regulation,'*** **Barron's** writes, ***'he came close.'*** His comments were at the **Vox Media's Code Conference**, where he also added that the growth of the space makes regulatory action ever more likely. More recently, echoing comments from **Fed** Chairman ***Jerome Powell***, Gensler speaking at a House hearing said he had no intention of following China, adding ***"our approach is really quite different."***

As an aside, of note to the SPAC crowd, were Gensler's comments on what he described as ***"loose [SPAC] definitions."*** This focuses on what SPACs can do with investor money, particularly when it appears that their sole incentivisation is to do a deal, when it is not necessarily in the best interest of investors.

Crypto (cont.)



Brevan launches crypto arm

In the last few editions of The Hedge, we have seen ever more activity and interest from **Brevan Howard** – and *Alan Howard* – in the digital asset space. Most recently, they have created a new digital assets and cryptocurrencies arm, **BH Digital.** This will be run by the highly experienced, Chicago-based, *Colleen Sullivan*, who was previously chief executive and co-founder of **CMT Digital**, a platform focused on crypto asset trading and blockchain technology investments. Watch this space...

ESG

Consultants target net zero

Twelve investment consultants, representing around $10 trillion, have launched the **Net Zero Investment Consultants Initiative**. This supports a global goal of reaching net zero greenhouse gas emissions by 2050, or earlier. Their commitments align with the **United Nations** convened **Net Zero Asset Owner Alliance,** the **Net Zero Asset Managers initiative** and the **United Nations Race to Zero Campaign.**

The 12 firms are **Barnett Waddingham, Bfinance, Cambridge Associates, Cardano, Frontier, Hymans Robertson, JANA, LCP, Meketa, Redington, Willis Tower Watson** and **Wilshire**. Between them they have pledged to integrate advice on net zero alignment into investment consulting services within two years of making the commitment.

These firms have also committed to working with institutional asset owners to identify investment risks from climate change and help clients prioritise real economy emissions reductions. In addition, the firms have committed to setting emissions targets across all operational emissions in line with 1.5-degree scenarios.

As *Fiona Reynolds*, CEO of **Principles for Responsible Investing (PRI)**, said: *"Investment consultancies have a key role to play in facilitating this shift... this commitment also cements their role in holding asset managers accountable on stewardship and product innovation."*

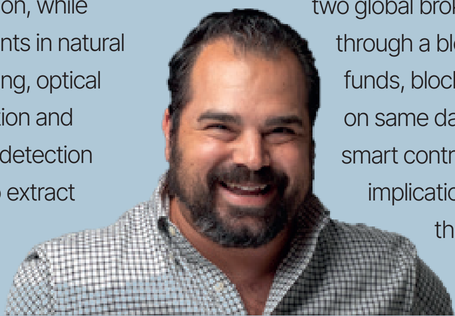
Guest Articles

Transforming hedge funds through digitization

The impact of digitization in the hedge fund and alternative investment space is taking effect right now. Technologies in artificial intelligence (AI), blockchain applications, and data management are impacting investment and operational functions. The range of capabilities derived from these technologies span from data aggregation, improved research, liquidity management and enhanced workflows. As daily functions evolve, the pivot to digitization will become both apparent and necessary.

In general, the benefits from AI are scale and efficiency, providing higher quality data and reducing the need for manual input. Two subsets of AI technology that show promise for hedge funds are machine learning and natural language processing.

Machine learning has been used to automate data recognition and document extraction, while recent developments in natural language processing, optical character recognition and visual relationship detection enable systems to extract unstructured data from documentation.



As documents are collected, machine learning algorithms become increasingly accurate, automating the analysis of such information, translating text into analyzable data, supporting investment research and portfolio decision making.

Blockchain technology, such as distributed ledgers, can be used to automate transactions from multiple parties in a single and connected record. These applications provide real-time transparency not only to the counterparts of a transaction but interested parties, such as investment managers, brokers, custodians, administrators and fund investors. As all parties have instantaneous access to a chain of transactions, execution, settlement and reconciliation happens in nearly parallel time.

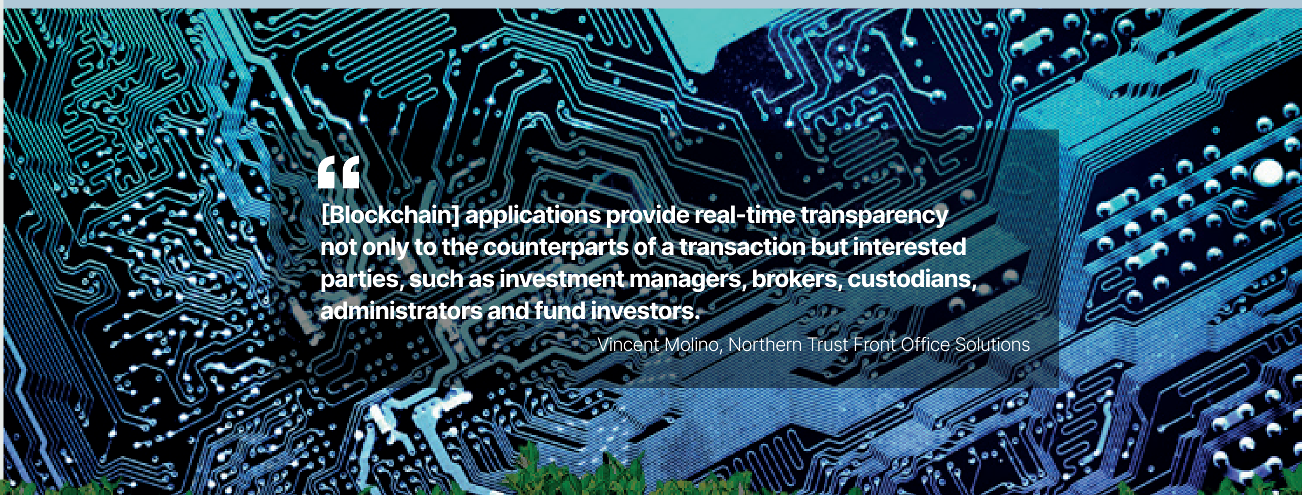
Earlier this year, a trade settlement firm completed same-day settlement with two global brokerage houses through a blockchain. For hedge funds, blockchain's capabilities on same day settlement and smart contracts have huge implications. For example, the redemption or withdrawal terms many funds currently provide in their offering documents, such as notice periods and gates, may be hard-pressed to continue in their current form if portfolio holdings of different liquidity can be transacted and settled the same day.

Data management, through cloud and related computing, can help investment managers harness disparate data sets by condensing siloed information or organizing it in such a way as to allow different systems (i.e., portfolio management, risk management, compliance or accounting) to quickly connect related data from different pools of information.

Increasingly, fund investors and their consultants are demanding greater levels of transparency within performance monitoring and due diligence practices. A hedge fund manager that has greater access and speed to respond to such requests will benefit from connective data management solutions.

For further interest on this topic visit Northern Trust's 'The Digitization of Alternatives' webinar series.

Vincent Molino, Head of Risk and Risk Management Solutions, Northern Trust Front Office Solutions



Guest Articles (cont.)

Lies, lies and damned ESG statistics

Number, Number, Weight, Division. Investors often feel they need the prophetic powers of Daniel to interpret the mass of ESG signals that now confronts them, ***Tom Rutherford*** writes.

A new arms race is underway between data providers keen to proffer a competitive edge, while companies invariably put their best foot forward selectively presenting their sustainability credentials through impact reports littered with virtue-based metrics. This before data scraping the internet and social media channels or taking account of the multiple competing certification schemes which may (or not) denote good practice.

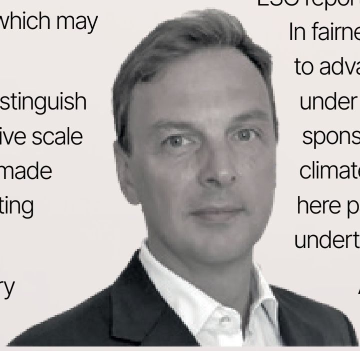
Making sense of these inputs to distinguish good and bad operators on a relative scale is a full-time job for many but one made more difficult by the raft of competing assessment standards.

Much of the problem lies in the very breadth of the ESG landscape; it is an immense task for companies to act on policy and report against a vast range of factors such as greenhouse gas emissions, electronic waste, modern slavery, diversity, customer relations, private and data security, to name just a few. Unsurprising therefore that data providers aggregate these various observations in simplistic headline ESG scores – single scores – for ease of comparison. Useful in theory but the trouble is these rankings are very subjective due to the weighted calculations behind the scores and which can both hide some ugly behaviours as well as huge gaps of reporting in certain areas. But these single scores present a huge marketing opportunity for marketeers of ESG oriented strategies in aligning with positive sounding trends without requiring much evidence around compliance on specific factors. Accusations of green-washing are often well founded.

Unsurprising also that reporting against a multitude of diverse metrics is too great for many smaller organisations, or for those in private ownership who are better equipped to shun public scrutiny. A common response has been for larger asset managers to develop their own proprietary assessment frameworks which will inevitably differ from others. A divergence of opinion is defensible, but less so when it is not clear why the judgement has been reached.

And so it is problematic for investors to benchmark sustainability outcomes either between providers or across different asset types.

In the absence of mandatory disclosure regulations building around a common global framework so ESG reporting will always remain patchy at best. In fairness, there are attempts by regulators to advance carbon emission disclosures under the banner of the **United Nations** sponsored **TCFD** initiative reflecting the climate emergency we all face. But even here participation remains largely a voluntary undertaking.



> **"It is problematic for investors to benchmark sustainability outcomes either between providers or across different asset types.**
>
> Tom Rutherford, LOTUC Consulting

An obvious answer is to widen the remit of accounting standards to incorporate certain ESG metrics within the audit process. This has the advantage or establishing consistency, a baseline of performance while also ensuring independent verification. Yet there seems little enthusiasm for this path, whether due to inherent cost or as many accounting practices generate substantial consulting revenues from the ensuring confusion. Industries may suggest their own reporting protocols or "pathways" but inevitably these are self-serving to the priorities of the larger players. Political imperative is key.

Europe arguably carries the baton with their EU taxonomy, a statutory reporting framework that should also extend beyond 'E' concerns to some 'S' and 'G' issues in due course. Whether other countries or the UK as chair of **Glasgow COP26** offers such leadership remains to be seen.

Tom Rutherford, Director, LOTUC Consulting

Marketing

Presented by brodie consulting group

The importance of brand equity in asset management

In the asset management world, brand equity is an integral element in building a successful business. This is the very perception of a brand; it is what differentiates one investment business from another in the market; it is also how a manager can capture and build their market share.

When it comes to brand equity, the website is one element – it is only part of the brand mosaic – yes, the site may well look slick, but it has to be relatable to what the business stands for and how it is managed. Brand equity goes far deeper. All too often in the hedge fund world, the brand is the website, no more.

Brand equity is about the direction of a business and how it is positioned, both in the public and in the private spheres. It is how that business differentiates from others in the market, the relationship with the manager/portfolio manager and nature of the communications with investors. This should resonate across every channel.

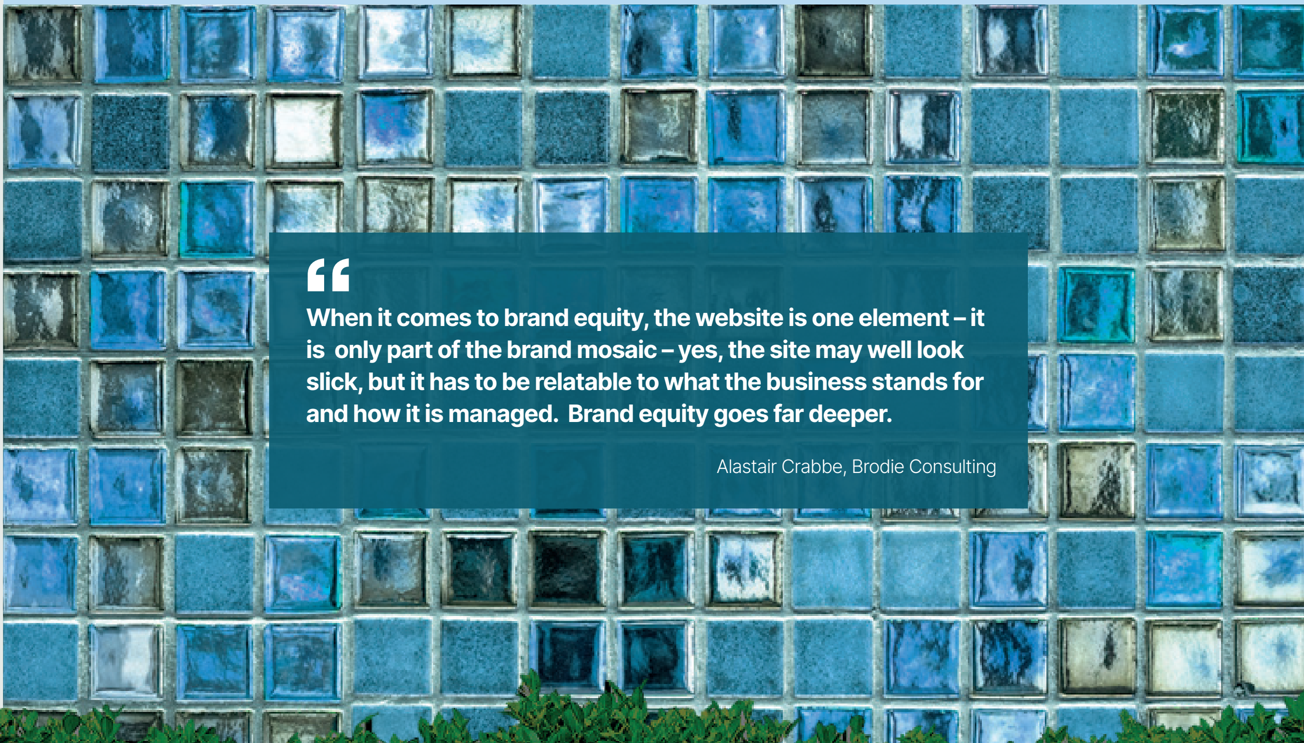
It is about creating an experience that is relatable and carving out a position that stands out. In the asset management world, where there is so much competition - both in terms of managers and funds - winning the battle for brand equity is hugely important. You want investors to invest in you and employees to work for you because of who you are and what you stand for.

To take this point a step further, it should be implicit in all aspects of the firm. This goes deeper than words – it should be embedded in the culture. You see this, in particular, at firms such as **Bridgewater** and **AQR.**

You also see this in the race to own 'ESG.' As things stand, there are certain firms that are pulling away, but there are still no clear winners. The firms that win will be those that make the E, S and G integral to their firm's DNA and every one of their processes. This is significantly more intrinsic than just a marketing document, it is how the people and the firm approach all aspects of their business, from investments and airmiles, to lightbulbs and printing, all of which are properly documented and reported with relevant KPIs, etc. This is where the real brand equity lies.

Given the numbers of managers and strategies, brand equity is incredibly important in the hedge fund space. As things stand, there are far too many managers with limited or no brand equity, a situation that ultimately does those managers few favours.

Alastair Crabbe, Founder and Director, Brodie Consulting Group



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Alastair Crabbe, Brodie Consulting

Regulatory

Presented by RQC GROUP

This month's regulatory round-up has an enforcement focus, with interesting case studies from the UK, Germany and the US.

FCA bans Jon Frensham from working in financial services

In March 2017, **Jon Frensham** – an independent financial adviser - was convicted of attempting to meet a child following sexual grooming, an offence committed whilst he was an approved person. The **FCA** found that Mr Frensham failed in his obligation to be open and transparent with the FCA in failing to inform the FCA about his arrest, being remanded in custody in respect of the offence which led to his conviction, and his failure to inform the FCA of the decision by the **Chartered Insurance Institute (CII)** not to renew his Statement of Professional Standing and to expel him from membership.

The FCA has stated that it considers the seriousness of the offence and all the circumstances enough to conclude that Mr Frensham is not a fit and proper person to perform any regulated function. Mr Frensham had referred the initial Decision Notice and the Upper Tribunal unanimously dismissed Mr Frensham's rebuttal.

This case demonstrates that there are certain circumstances where an individual can be sanctioned over actions unrelated to their actual financial services activity. A challenge for firms, in particular their legal, compliance and HR departments, is determining where the boundaries lie. Mr Frensham's conduct was clearly serious, and there are prior cases where an individual has been sanctioned for financial dishonesty, such as committing fraud. However, there are various other actions (grievous bodily harm, or improper 'trolling' on social media, for instance) where this framework has not yet been tested.

Insider dealing, temptation, addiction and Covid – a cautionary tale

A German fund manager who committed large-scale insider trading has been sentenced to three and a half years in jail and ordered to repay €45 million, representing the aggregated trading volume of the individual's illegal transactions.

The individual, a senior investment professional at Union Investment – a large German asset manager – admitted to 55 cases of insider trading between April and September 2020. He used an undisclosed brokerage account to front-run buy and sell orders of blue-chip stocks, executed on behalf of his employer.

The individual told the court that he commenced insider trading after feeling 'offended' by a smaller-than-expected pay rise, following a 'deeply frustrating' salary in 2019 of €440,000. He decided to find a 'different way of rewarding himself', according to his psychiatrist.

The proceeds from the insider trading were left untouched, indicating that the individual was – initially - motivated by a feeling of validation as opposed to financial reward. The activity then became an 'addiction'.

The personal account dealing was executed at the individual's desk at his employer's office premises. "As everyone else was working from home, [due to Covid] it was only me and one junior colleague in the office", he told the court.

He was eventually caught after his personal broker flagged the suspicious trades to BaFin, the German regulator.

He also passed on the inside information to a friend, who also engaged in insider dealing. The friend was arrested after police found chat messages between the two men.

RQC GROUP (cont.)

SEC settles fraud charges with two former executives of TCA Fund Management Group Corp

The **SEC** has settled administrative actions against ***Michael Vernon,*** the former COO of registered investment advisory firm **TCA Fund Management Group Corp. ('TCA')**, and ***Steven Rosen***, its former CFO, for their roles in the firm's fraudulent inflation of net asset values and performance results of several funds it managed.

According to the order, both Vernon and Rosen played a role in the scheme by assisting in the recording of false data on the funds' books and records, which resulted in inflated performance figures. TCA distributed promotional materials to the funds' current and prospective investors that included inflated asset values and false performance.

The SEC's orders found that Vernon and Rosen had each violated various antifraud provisions under US statute.

Without admitting or denying these findings, Vernon and Rosen each consented to a cease-and-desist order, a payment of a penalty of $35,000, and a broad limitation on activities within the financial services sector, with a right to apply to act in such capacity after three years.

SEC charges quant analyst in multimillion dollar front-running scheme

The **SEC** announced charges against a quantitative analyst who worked at two prominent asset management firms for perpetrating a years-long front-running scheme that generated profits in excess of $8.5 million.

The SEC's complaint alleges that from at least January 2014 through October 2019, ***Sergei Polevikov*** had access to real-time, non-public information about the size and timing of his employers' trade orders and trades, and used that information to secretly trade on, and ahead of, his employers' trades. On nearly 3,000 occasions, Polevikov bought or sold a stock on the same side of the market as his employers before his employers executed the trades and would typically close his positions the same day, capitalizing on the price movement caused by his employers' large trades. The complaint alleges further that Polevikov concealed his fraudulent scheme by executing the trades in the account of his wife, ***Maryna Arystava,*** who uses a different last name.

The SEC's investigation originated from its Market Abuse Unit's Analysis and Detection Center, which uses detailed data analysis tools to detect suspicious patterns, such as improbably successful trading across different securities over time. In a separate action, the U.S. Attorney's Office for the Southern District of New York also announced related criminal charges against Polevikov.

RQC GROUP (cont.)

SEC surpasses $1 billion in awards to whistleblowers

The **SEC** has announced awards of approximately $110 million and $4 million to two whistleblowers, meaning its whistleblower program has now paid more than $1 billion in awards to 207 whistleblowers since 2012. This includes payments in excess of $500 million in the fiscal year 2021 alone.

Whistleblower payments are made out of an investor protection fund established by the US Congress that is financed entirely through monetary sanctions with no money taken or withheld from harmed investors. Whistleblowers may be eligible for an award when they voluntarily provide the SEC with original, timely, and credible information that leads to a successful enforcement action, and awards can range from 10-30% of the money collected when the monetary sanctions exceed $1 million.

The highest award – announced in October 2020, was over $114 million.

Similar to the SEC, the UK **FCA** has a process whereby individuals can blow the whistle to the regulator. However, unlike the SEC, there is no monetary reward for doing so.

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If you have any questions about **The Hedge**, or would like to have a colleague added to our distribution, do please contact the team at **thehedge@brodiecg.com**

This document has been produced by Brodie Consulting Group in conjunction with RQC Group.

brodie consulting group

Brodie Consulting Group is an international marketing and communications consultancy, focused largely on the financial services sector. Established in 2019 by Alastair Crabbe, the former head of marketing and communications at Permal, the Brodie team has extensive experience advising funds on all aspects of their brand, marketing and communications.

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