

By establishing a repeatable strategy, implemented by a long-standing investment team, and emphasising shared responsibility with risk management and due diligence, **SkyBridge Capital** has generated impressive returns over the past decade.

Going the distance

Consistency is key to the success of SkyBridge Capital's fund of hedge funds portfolio, according to chief investment officer and co-managing partner Ray Nolte. One of the firm's offshore funds has been named Best Diversified Fund of Hedge Funds over 10 years at the 2015 *Hedge Funds Review* Americas Awards. The team behind the fund of funds has remained the same for the past decade since Nolte took over its management while at Citigroup in 2005. "I revamped the team and the thought process around its management," he says. "And that same team has been executing the strategy for the past decade."

The revamp involved applying a more thematic and dynamic style to fund of funds investing by implementing a multi-strategy approach. Under this method, the investment team identifies a high-conviction theme or idea and allocates capital to fund managers on a more flexible basis than traditional fund of funds. For instance, instead of investing up to 2% with each of 50 funds, the investment team looks across the entire hedge fund universe to invest as much as 40% in a particular theme and up to 10% with an individual fund manager. SkyBridge Capital took over the fund in 2010, retaining Nolte and his team to maintain this strategy.

While the team has continued to apply this strategy over the past decade, Nolte believes the ability to remain dynamic is also crucial to the fund's success. "If something is not working, we can quickly move out of that theme or investment," he explains. "We also do not invest



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The team re-evaluates the portfolio on a monthly basis and will adjust risk depending on the market environment. In developing a more equitised portfolio in early 2013, for example, portfolio risk was increased to a beta of 0.5 from 0.2. Those positions were held until the second quarter of 2014 brought some market changes that convinced the team to pare risk back to a beta of about 0.25.

The recent outbreak of the Ebola virus, identified in West Africa in March 2014, was one of the drivers behind that move, having caused concern about the potential impact on financial markets. The team also detected some government policy risk relating to tax inversion deals, which many of the fund's equity managers had positions on at that time. After reassessing those risks in late October and determining that both situations were overdone, risk was increased again to a beta of 0.35 in November, which is roughly where it stands today. "That gives a

sense of how quickly we can shift away from risk and then bring it back into the portfolio," Nolte adds. "In 2014, we probably had roughly 70% turnover – one of our highest turnover years ever. This year has seen much less turnover; we've largely stuck with the current positioning of the fund."

In spite of this agility, however, Nolte does acknowledge some missed opportunities in recent years. After exiting the commodity trading adviser space in mid-2009, SkyBridge saw currency-oriented macro managers perform extremely well in the second half of 2014 and early 2015. "At the time, we just didn't have the confidence level that the returns were stable. We also felt there was a little too much central bank intervention, which would maintain a heightened level of volatility in that space," Nolte says. "It looked like an interesting opportunity set, but we did not have a strong enough conviction to build the positions."

The level of conviction behind the fund-of-funds' investments has been a crucial element of its performance over the past decade. The investment, operational due diligence and risk management teams all have full veto powers over any investments. "All three teams work very closely together, but have independence to drive their respective disciplines and use their vetoes if they see anything they are not comfortable with. That process has been in place for a decade and works well for us," Nolte says.

Ultimately, he believes the strength of the fund can be attributed to the continuity of personnel and strategy it offers investors. "Over the past decade, we've put together a repeatable process and created systems of accountability and responsibility throughout the due diligence and portfolio management process," Nolte says. "At the end of the day, this is really about the team." ■

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