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Best Performing Fund of Funds

Kairos International SICAV Multi Strategy UCITS Fund

KAIROS

Fund manager: Kairos Partners

Stefano Prosperi thinks "the set-up and the experience is critical to success in the UCITS space." The Kairos multi-managers team has two decades of investment experience in absolute return strategies and has established one of the top track records in their space particularly on a risk-adjusted basis. In over 13 years of operation, Kairos has avoided frauds and never gated or suspended redemptions. The team travel constantly and extensively across the globe and in 2012 had no less than 2,306 meetings with fund management teams in both developed and emerging markets. The neologism "Glocal" summarises their approach of finding the global trends while studying the local markets.

Kairos were early adopters of UCITS as it was a natural extension for them. The firm had always invested primarily in equity, liquid credit, macro, and CTAs. These strategies are all liquid and trasparent, so it was a natural transition to wrap them into UCITS without any special challenges.

Neil Griggs, Partner, Hedge Funds, BDO presenting to Michele Gesualdi, CIO, Kairos Fund of Funds

Discounted fees are one of the most important factors behind the success of the KIS Multi-Strategy fund. Having launched the first absolute UCITS fund, Kairos had a first mover advantage there. The firm is still the biggest allocator in absolute UCITS, allocating $800 million. As such it is one of the few that can write a big ticket to start up UCITS funds. Early discussions are held with managers, which allows Kairos to negotiate some compelling fees. The UCITS is in many ways a "dream business for us as many established players have no UCITS business," says Prosperi, so it's relatively easy for Kairos to convince them to launch one and, in exchange for an early allocation, they obtain significant discounts and capacity agreements.

"We do not bear the risk of a typical seeder," adds Prosperi, "but we enjoy all the benefits of it." In 2012 look-through fees on underlyings were calculated at 1.1% and 8%. On top of this, Kairos charges on average 1% and 10%. The two layers together work out almost at the same price as a single manager, with the added benefits of diversification, monitoring, and rebalancing. "When compared to a single fund we can offer diversification, an active asset allocation, manager selection and our 13 years of experience practically for free," says Prosperi.

Equity strategies have always been core and currently make up more than 60% of their UCITS fund. Kairos are sceptical of market-neutral approaches, believing that it is very difficult to extract large amounts of alpha in the current market environment. Corporate event is another strategy Kairos likes. But they are not so keen on traditional merger arbitrage, "where spreads on safe deals are too low and volatility can kill you", and prefer special situations such as spin-off, pre-event and restructurings.

In credit Kairos has only liquid long and short managers, but, says Prosperi, "We have reduced their allocation since today spreads are too tight." Global macro is a strategy that accounts for 10% and they "focus on funds with very asymmetric trades that will help during volatile markets". No leverage is used at the Kairos fund of funds level, and most of the managers use very little. Long-only funds could be contemplated if an extraordinary manager was found with an absolute return mindset.

Since 2000 the Kairos multi-manager team has delivered to its investors an outstanding compound return of 93% with a volatility of 4.4%, proving to be a much better option to any equity index both in term of risk and return. Its correlation patterns lead some to characterise their funds as "a call on equity markets and a put on bonds".

Prosperi strongly feels that their funds are particularly attractive at this juncture, offering "a compelling opportunity for investors that are over-allocated to fixed income and want to diversify into equity-related strategies maintaining the volatility profile typical of a bond". THFJ