

Tinworth and Watford for AIMA: Multi-managers, Their Impact on U.K. Start-ups and the Evolution of Their Relationship with Single Managers

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Haynes Boone Partners [James Tinworth](#) and Ben Watford authored an article for the *Alternative Investment Management Association* on the impact that multi-managers have had on hedge fund start-ups in the United Kingdom and the developing relationship between multi-managers and single managers.

Read an excerpt below:

What are multi-managers? Examples include Lighthouse, Millennium, Citadel, Schonfeld, Point72, Man GLG et al. They do it in different ways but, put simply, a multi-manager would hire, or otherwise engage with, portfolio management teams, which would become reasonably autonomous 'pods' within the firm. Each pod would have their own profit and loss (P&L), perhaps even manage their own fund, sub-fund or cell, but would be subject to the firm's overall risk management and allocation policy and the firm's strict risk parameters. In many ways, each pod is almost running its own hedge fund within the multi-manager.

I would recommend readers to the series of articles relating to multi-managers that have been in the FT recently.¹ Unfortunately, the FT has the rights to multimanagerverse so the title to this piece ended up being less superheroic as a result.

This article looks at the impact that multi-managers have had on hedge fund start-ups in the United Kingdom and considers the developing relationship between multi-managers and single managers (the term this article will use to distinguish hedge fund managers that are not multi-managers).

Starting up: single managers, multi-managers, regulatory hosts and going your own way

Broadly, a hedge fund start-up has a full spectrum of options (and there are a variety of different flavours for each option):

Option 1. Join an existing hedge fund manager – everything aside from portfolio management is done for you and you get access to the firm's systems and infrastructure. You benefit from the firm's brand and its capital raising efforts. You might even get your own fund to manage but you won't get more than a personal brand. Ultimately, you are a cog in a much larger machine. You are not your own boss. Your performance will be assessed by the firm and the firm may decide to part ways if performance is not as expected.

Option 2. Join a multi-manager - everything aside from portfolio management is done for you and you get access to the firm's systems and infrastructure. You benefit from the firm's brand and its capital raising efforts. You are able to develop more of a brand for your own business and you may get a fund (or, more likely, a cell in an umbrella segregated portfolio company), which may have your own business' branding.

You might even have your own entity that can build up its own brand to an extent. Ultimately, you are one of many pods. You are not your own boss. Your performance will be closely assessed by the firm and the firm may decide to part ways if performance is not as expected. This is much more likely to happen than under Option 1.

Option 3. Use a regulatory host - everything aside from portfolio management is done for you and you get access to the firm's systems and infrastructure. The firm may or may not be able to assist with capital raising but the onus is on you to raise the capital for your fund. You can set up your own fund vehicle (which may be independent of the host, or which may be provided by the host via a "fund out of the box" or a cell in an umbrella SPC platform). You are able to develop a brand for your own business and fund. You are your own boss (albeit working within the restrictions and parameters of the host). Your performance will be assessed by your investors. The host may decide to part ways, but this is much less likely to be on the basis of performance.

Option 4. Set up your own hedge fund management business - you need to make sure everything is done, and you need to build or buy in your firm's systems and infrastructure. The onus is on you to raise the capital for your fund. You can set up your own fund vehicle. You are able to develop a brand for your own business and fund. You are your own boss. Your performance will be assessed by your investors. We would note that getting FCA authorised from day one is not very common anymore, although we do still see it. Even the larger UK launches often use a regulatory host, if only to cover the FCA application period.

The lines are hazy between multi-managers and other hedge fund firms (particularly, multi-strategy firms), on the one hand, and multi-managers and FCA regulatory hosts, on the other. Some of the multi-managers are essentially a form of hybrid regulatory host...with some very crucial differences!

All these terms are certainly terms of art rather than science. The above options should be viewed as a simplification.

To read the full article on *AIMA.org*, click [here](#).