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OPALESQUE

Melissa Hill, Managing Principal, Sabre Fund Management
by Beverly Chandler, Opalesque London:

For one veteran London based hedge fund group, the experience of surviving the depths of the credit crisis in 2008, revealed a path to the future. Melissa Hill is the Managing Principal of Sabre Fund Management, the firm she joined in 1996, but which had been founded as one of London's first commodity trading adviser firms in 1982.

As she says, "it was a very different business then and it was a nursery ground for some of the brightest talents in our industry today." Both David Harding and Martin Hunt of Winton Capital and Altis's Zbigniew Hermaszewski worked at Sabre in its first incarnation. 1996 saw the firm enter the quantitative equity space following a corporate restructuring that brought Hill into the firm and saw the launch of Sabre Market Neutral, a pairs trading strategy. 2002 saw the launch of the Sabre Style Arbitrage fund devised and managed by Dan Jelicic. "Mean reversion plays are just one opportunity set. We knew that we wanted to offer our investors a broader based strategy. By combining mean reversion models with fundamental factor portfolios and dynamic style timing you have, de facto, three alpha engines, each capable of adding value in their own right, in varying quantities, according to market conditions. Therefore, a best equity quant ideas fund" says Hill.

Sabre Style Arbitrage has annualised returns of 8.5%, a figure that does not show the historical strength of its returns. A higher risk/return version has annualised at 13.8%. Historically, the less leveraged version achieved returns of 14.18% in 2007, in 2009 it reached 22% and 2010 saw 12% but it was the fund's first ever loss in 2008 of 15% which has hit its cumulative returns figure when the fund had exposure to the Lehman collapse.

However, observing that Sabre's fledgling retail/traditional investment management investor base was not rattled by 2008 because they were benchmarking against long only returns, Hill started to think again about UCITS. "We started exploring this opportunity in 2007 but put the project on hold after the crisis. As the industry stabilised and investors came back to the table, it made perfect sense to diversify our client base with the introduction of a UCITS fund" she says.

The firm has $550m under management and since the February launch, $45m is in their UCITS fund, with their strategic distribution plan yet to be fully implemented. The fund is a pure UCITS fund, tracking Sabre Style Arbitrage closely. "The fund has very low volatility and low leverage. It is highly diversified and very liquid so it meets the rules for sophisticated UCITS without any strategy adaptation" explains Hill.

The firm has recently moved offices, and with more space has plans for more hires across the board, in investment, operations and investor relations. "We are seeing an increase in institutional business" explains Hill. "The UCITS vehicle has brought us to the attention of a different kind of investor and has put us on some institutional radar screens, opening up some avenues that were closed previously because some investors equate quant with black box opacity. Now they are prepared to listen to the story and realise that we are actually quite transparent about what we do."

The fund is over half way to current predicted capacity. The strategy has a relatively high turnover and fairly tight liquidity constraints to ensure adherence to risk targets. "Capacity is never an exact science but we prefer to be conservative and not push the boundaries" Hill says. So there is a great commitment to research and development. "It's a process of evolution and revolution" she says. "Making what we do already better and looking at new alpha generating ideas."

The 2008 experience has marked her, in a positive way: "The crisis highlighted the need to build a strong sustainable business with a diversified revenue source", Hill says. Looking forward, she is optimistic about the future of the industry. "There is a much more level playing field now with more balanced relationships between investors and managers and service providers. This is how it used to be when I started in the industry and it is refreshing".