EUROHEDGE MEETS...

PHILIPPE JABRE

BY **WILL WAINEWRIGHT**

The founder of Jabre Capital Partners reveals a new bet on blockchain and gives his thoughts on the industry return of former recruit Greg Coffey

I am midway through my interview with Philippe Jabre when one of his investment staff knocks urgently on the door. An investment has hit the target share price set by Jabre and the employee asks for advice. Jabre – or "PJ" as he is known in the office – flicks from interview to trading mode in an instant and gives instructions.

The moment is a brief insight into Jabre's passion for markets, which remains undimmed after more than three decades at the frontline. He was rarely out of the headlines in the pre-crisis years, making his name by posting exceptional returns for GLG Partners before leaving London in the wake of a market abuse fine to start Jabre Capital Partners in Geneva.

The Swiss canton has been his trading base since 2007. Jabre's subsequent career has made fewer headlines but, in an industry where lifespans can be short, the longevity of his career stands out. "At his core, he loves markets and over time has become a trusted hand in the industry," says Jim Neumann, partner at consulting firm Sussex Partners, who knew Jabre from his GLG days when he worked on manager selection for Ramius Capital.

"When I look back over the past 11 years, there have been extraordinary events in the market and our firm has been able do well," says Jabre. "Most of our funds are at their high-water mark." Firm-wide assets stand at $1.5bn, mostly in three main strategies: Global Balanced, which makes big stock and macro calls; Global Convertible, which uses bonds to make similar plays, resulting in a more restrained returns profile; and Multi Strategy.

Smaller offerings in long/short credit and emerging markets make up the rest – for now. "Asset management is a disciplined science but you have to adapt to the particular moment you find yourself," he says. Ever on the alert for the next big trade, the Franco-Lebanese manager has set his gaze firmly on blockchain technology and its potential to disrupt established industries.

"Blockchain is quite revolutionary," he says. "The market cap of all these tokens three years ago was around $5bn. It reached a high of $800bn earlier this year, which was extraordinary. That said, I don't think the value of the tokens is important – more the technology behind it."

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Jabre believes the companies which successfully use blockchain to overtake competitors will have an impact similar in scale to the internet. "You had an enormous number of companies trying to use the internet to disrupt established working practices, 95% of which did not survive," he says. "But the 5% of survivors are Amazon, Google, Facebook etc. The same thing will happen with blockchain. If you can invest at the start in the future survivors, the gains could be huge."

That is the rationale behind a unit Jabre is developing to give investors exposure to these potential gains. "We are looking to expand our investment strategy in this area with a first offering focusing on early stage venture capital opportunities," says Jabre. "We are taking a long-term view, looking forward to bringing a seasoned approach to investing in this relatively new field."

Jabre is far from the only hedge fund veteran eyeing the impact of the new technology. Brevan Howard co-founder Alan Howard has made personal investments in cryptocurrencies and related businesses, while Adam Fisher, a macro manager at Soros Fund Management, has internal approval to make cryptocurrency trades, according to *Bloomberg*.

US manager Morgan Creek Capital Management bought Full Tilt, a North Carolina-based firm seeding cryptocurrency businesses, earlier this year. "The disruptive power of the application of blockchain technology across all asset classes will create enormous investment opportunities," Mark Yusko, Morgan Creek's founder and chief investment officer, said when announcing the deal.

Altana Wealth's Lee Robinson, who managed billions with Trafalgar Asset Managers in the hedge fund industry's pre-crisis heyday, putting him on a par with Jabre, shares his enthusiasm.

"Blockchain is the second or third most impressive disruptive creation of the last 40 years," he says, behind only the microprocessor and possibly the internet. "Dotcom companies were worth close to $10trn in 2000 in present money terms, and more today, yet crypto ventures barely add up to a few billion dollars.

"Clearly there is materially more upside than downside of the order of 1000:1," adds the Monaco-based manager. "All investors should be looking at a small allocation given the attractive risk reward ratio."

Investor views are mixed. One fund of hedge funds investor – not invested with Jabre – expressed scepticism that

FIRM FACTS

JABRE CAPITAL PARTNERS
Founded in 2006
Offices in Geneva, London and Dubai
36 employees
$1.2bn under management

PHILIPPE JABRE: LIFE AND TIMES

MAY 1960
Philippe Jabre born in Lebanon

1978
As civil war intensifies, moves to Canada to study economics degree at Concordia University in Montreal

1982
Obtains MBA from Columbia Business School in New York. Moves to France and joins BAII, a subsidiary of Banque Nationale de Paris

1983
Begins managing money for BAII

1997
Hired by GLG Partners, a unit of Lehman Brothers, as the fourth partner, joining founders Noam Gottesman, Pierre Lagrange and Jonathan Green

2000
After strong returns, GLG Partners spins out from Lehman Brothers, which retains a 20% stake

2006
Jabre fined by UK regulator the FSA for market abuse. Moves from London to Geneva

2007
Jabre Capital Partners starts trading three separate strategies

2008
Firm starts trading an emerging markets strategy

2011
Makes $300m loss buying and selling stocks at the wrong time in the wake of the Tōhoku earthquake in Japan

2013
Jabre Capital Partners wins Management Firm of the Year at EuroHedge awards

2016
Firm launches its first pure credit fund with a team hired from RAB Capital

2017
Return to form in main strategies with 27.5% gain in Global Balanced

2018
Begins building blockchain investing unit

Sources: Companies House, Financial Times, Wall Street Journal, Association Philippe Jabre, Pageant Media and Jabre Capital Partners

JABRE'S OFFICE BUILDING IS OPPOSITE A CLOCK TOWER ON THE PONT DE L'ILE, A HISTORIC CROSSING

such a vehicle could generate high returns, with a lot of the excitement around blockchain's potential already priced into valuations. But there is interest, with 6% of respondents to Credit Suisse's 2018 global hedge fund survey expressing appetite for blockchain or cryptocurrency investments. The category wasn't even offered as an option the previous year.

"All blockchain-related investments are subject to a high degree of risk as the technology is still in its early days," said Aaron Costello, a managing director on with consulting firm Cambridge Associates, in a report in November. However, he believes focusing on companies using blockchain – rather than the digital currencies underpinned by the distributed ledger technology – could yield benefits.

"The risk/return profile for cryptocurrencies seems binary given the lack of an economic source of return, meaning investors must be able to tolerate massive volatility and potential for permanent loss. Instead, we think investors are better served investing in companies trying to benefit from the spread of blockchain and fintech more broadly."

Return to form

Last year brought an important recovery for Jabre, whose flagship Global Balanced and Global Convertible funds both posted double-digit gains after an uncharacteristic three-year stretch of losses and low single-digit gains between 2014 and 2016. He dates the turnaround to July 2016.

"The first six months of 2016 were quite difficult because there was a big contraction in oil, in China growth, and people were uncertain of growth and deflation. We were long the market and suffered," he says. Then the picture changed.

"There was a sharp reversal that started in summer 2016 when the major intervention by central banks started to have its effect. Japan and China took very heavy measures to spend more on their economies, through

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POINT BETWEEN NORTH AND SOUTH EUROPE

fiscal and monetary policies. The EU went on a new bond-buying spree and the US was still quite active. The two US presidential candidates both said America needed to spend more money. It was a turning point."

Jabre pounced to reinforce the longs that had previously cost him. The shock US presidential result helped. "When Donald Trump became president we moved our exposure into more growth-oriented calls, hoping his measures would pass. He was talking about developing infrastructure, cutting tax and spending more, and we identified growth and interest rates could increase."

A 27.5% gain for Global Balanced and 12.7% gain for Global Convertible followed last year, which Jabre thinks would have been higher without an incorrect call on the US dollar. "We thought the dollar could be stronger, which hasn't played out," he says. "It might now. It would be good for financials and cyclicals if it did." Jabre attributes the bulk of last year's gains to Europe and Asia, "the main beneficiaries of central bank moves".

February's market rout and volatility spike was "quite extraordinary" even to Jabre, who has traded through several market cycles – but he thinks its legacy will be positive. "The rate of growth of the S&P 500 had been quite steady until this year," he says. "The slope changed in January – equities began to race upwards, due to money being thrown at the market after the US tax reforms late last year. This volatility correction triggered a market correction, which was violent but healthy."

He accepts the widespread view that structural funds betting on low volatility as a strategy had reinforced the low vol levels. "Those investors have suffered and that strategy will be less of a factor going forward," he says. "Instead we will have a better market based on strong earnings data."

The current market reminds him of the mid-nineties. "Between 1995 and 1998, we had a period where bank balance sheets were similar to now and we had low inflation and tax reforms in the US," he says. In that sense, the market rout helped. "The decline was so violent but there were no fundamental reasons – just technical – so people like us, on the long side, stayed invested. We knew stocks would recover as the fundamentals had not changed so we held our breath."

Inflation is a possible risk on the horizon. "High inflation would cause a problem in the market if it scares central banks into taking action which could induce a recession," he says, but does not believe it is an imminent threat.

Beirut roots

Born in the Lebanese capital at the beginning of the 1960s, Jabre's life away from trading has been no less eventful. In 1978, with his homeland in the throes of civil war, he moved to Canada to study economics at Concordia University in Montreal, before earning an MBA at Columbia Business School in New York. He learned his trade in convertible bonds, then an obscure area, at Banque Nationale de Paris in London.

Jabre joined GLG Partners in 1997, two years after it was formed by Noam Gottesman, Pierre Lagrange and Jonathan Green as a unit of Lehman Brothers. He was the fourth partner, given responsibility for convertible bonds, credit strategy and emerging markets. (Equities were split between Gottesman in the US and Lagrange in Europe).

It proved a highly effective quartet as high returns rolled in and the unit, which span out from Lehman in 2000, proved an example of the developing hedge fund industry's huge money-making potential. "He carved out a non-equity niche for himself at GLG," says Neumann. "I see him as a value guy – he goes where there has been disruption or an inflection point exists in the markets."

Jabre's fortunes changed when, in

KEY DATA

69.6%

THE GLOBAL CONVERTIBLE FUND'S RECORD GAIN IN 2009

47.8%

THE GLOBAL BALANCED FUND'S RECORD GAIN IN 2013 (NARROWLY AHEAD OF ITS 45% ADVANCE IN 2009)

27.3%

THE GLOBAL BALANCED FUND'S RECORD LOSS IN 2011 (ITS THIRD LOSS IN 11 CALENDAR YEARS OF TRADING)

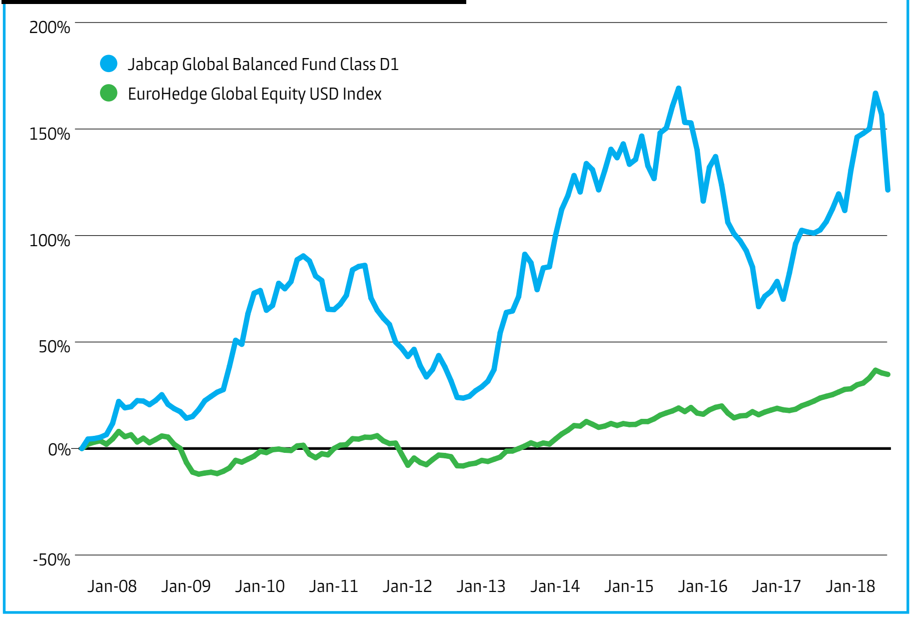
£750K

PHILIPPE JABRE'S FINE FOR MARKET ABUSE LEVIED BY THE BRITISH FINANCIAL SERVICES AUTHORITY IN 2006

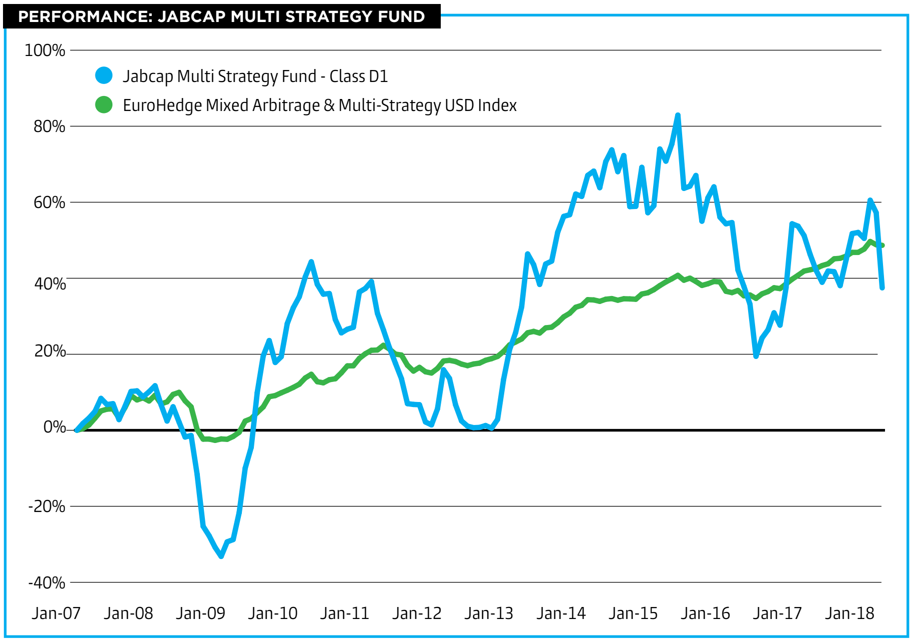
He carved out a non-equity niche for himself at GLG. I see him as a value guy – he goes where there has been disruption or an inflection point exists in the markets

JIM NEUMANN

PERFORMANCE: JABCAP GLOBAL BALANCED FUND



PERFORMANCE: JABCAP MULTI STRATEGY FUND



2006, he was fined £750,000 by British regulator the Financial Services Authority for what it described as a "very serious" market abuse breach. "The regulatory thing in London was an unfortunate case where I should have been more cautious," says Jabre, looking back. "The rules were not as clearly defined and understood by everybody as they are now."

The landscape has totally changed. A lot of my competitors have retired, the industry has shrunk. Yes, alternative assets are higher than ever, but a lot of new money has come into systematic funds. In active management there has been a sharp reduction

PHILIPPE JABRE

Neumann sees the case as a key moment not just for Jabre, but the wider industry. "It was a wake-up call for a lot of managers and compliance staff in Europe," he says. "He happened to be the poster boy for it at the time and was able to fortify controls and move on."

Jabre started trading Global Balanced, Global Convertible and Multi Strategy with his new firm in Geneva in 2007. His decision to pile into equities in the wake of the 2008 crash led to huge gains the following year: Global Convertible rose a record 69.6% while Global Balanced was up 45%. "I just realised the world was not going to end," he told the *New York Times* midway through 2009, after reversing his portfolio split of 80% bonds and 20% equities.

"His Global Balanced fund is not for the faint of heart – he runs higher net and gross exposures," says Neumann. A well-publicised $300m loss in the wake of the 2011 Japan earthquake, when Jabre made a series of badly-timed trades, shows his approach carries risks.

The potential volatility of returns was demonstrated again in March as Global Balanced slipped 13.8%, sending returns for the first quarter into the red by 11.5%. The monthly fall was far in excess of the 3.8% decline incurred during February's volatility spike and market rout, an unpredictability of return potentially off-putting to some investors.

"However, on the whole it has delivered over several investment cycles," adds Neumann. Firm-wide assets now stand at a fifth of their $6bn peak, but returns have been strong aside from a below-par three-year period before last year.

Jabre hopes that last year's return to form could draw new interest. "In general investors were very concerned about equities and 2017 was the first year for a while they performed strongly and continue to do so, with better growth and earnings outlook," he says. "We are meeting a lot of investors who don't have enough in equities and want to be more invested. Certainly, better returns bring more interest."

The asset allocation market has changed considerably. "There used to be a lot of FoHFs in Europe, most of which don't exist now. A lot of insurance money too which no longer exists," he says. "The landscape has totally changed. A lot of my competitors have retired, the industry has shrunk.

Yes, alternative assets are higher than ever, but a lot of new money has come into systematic funds. In active management there has been a sharp reduction."

Smaller, more recent offerings complement the trio of funds Jabre Capital Partners has managed since inception, including a long/short credit fund managed by a team in London. "It is an interesting area where there is always demand, especially with low inflation and a very stable political background," says Jabre.

The firm also has a Middle-East presence. "We have established an office in Dubai which will be an important resource for Carl Tohme's [emerging markets-focused] team," says Jabre. "They have done extremely well during a very difficult period and now things are improving in these regions, the next few years could be very good for them."

GLG to Geneva

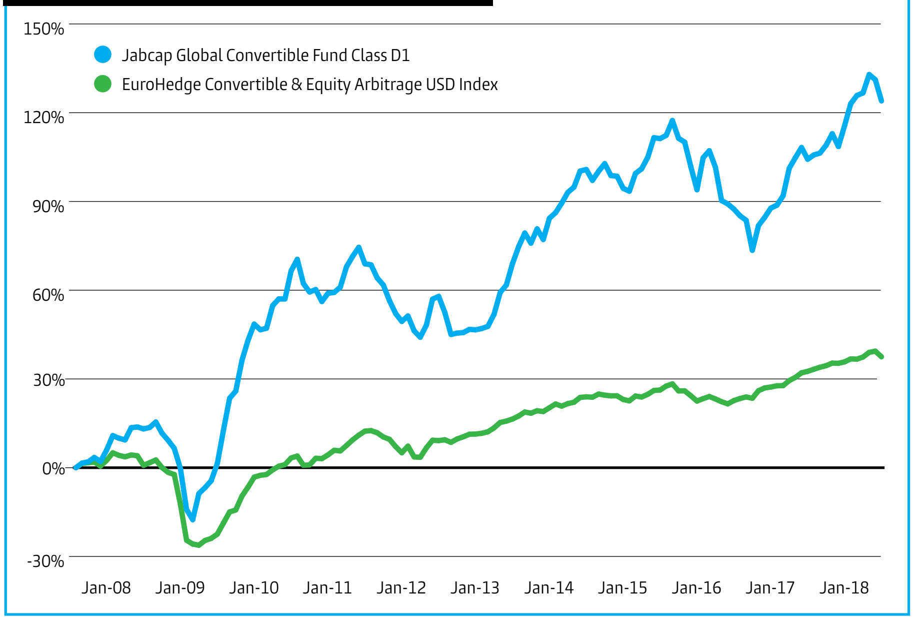
It is more than a decade since Jabre left GLG, and 21 years since he joined the company. "I am probably the only one still involved in the hedge fund business every day," he reflects. Gottesman and Green are no longer in the industry, while Pierre Lagrange stepped back from day-to-day oversight to take on an advisory role at GLG, now a unit of Man Group, in 2016.

Greg Coffey, another GLG connection who Jabre originally recruited to the firm, has been in the headlines as he prepares his comeback to the hedge fund industry. "I wish him the best," he says. "Everyone is interested to see how he gets on. Raising assets is hard and the market has changed so it will not be easy, but it should be interesting."

Geneva has proved a comfortable base for Jabre for this latest chapter of his career. "We like it here very much and there are no plans to return to London," he says. "Being based in Switzerland has brought a lot of stability in terms of being a bit away from the mainstream noise and allowing us to do our work in a very disciplined manner."

Aside from the excellent skiing opportunities on surrounding mountainsides, Jabre finds Geneva convenient in terms of the day-to-day work of a hedge fund manager. "Colleagues go to conferences in bigger capitals, New York, Tokyo, Paris, Hong Kong, London etc," he says. "But a lot of European and Asian companies come to see us here, access is good because there are enough big investors to make the trip worthwhile but not too many to restrict access."

PERFORMANCE: JABCAP GLOBAL CONVERTIBLE FUND



Switzerland lies outside the European Union, as Britain soon will, but Jabre is supportive of the eurozone economy. He finds the current economic situation in Europe, with the eurozone outpacing British growth, ironic in light of the last few years.

"When Europe had its problems with Greece, during the 2011 debt crisis, the press in England was always very negative, there was no conciliatory tone," he says. "The talk was always about Europe collapsing. Brexit in 2016 was a culmination of the previous five years – many voters had read the press and thought it would be better to split from Europe and its problems. But now the eurozone is growing well, employment statistics have improved, the political situation has stabilised. The eurozone economy is doing well."

That verdict means he is confused by Ray Dalio's much-publicised bet against European stocks earlier this year. "I do not understand the long side of his trade," says Jabre. "Does he think the US is going to outperform against Europe? Maybe he is long emerging markets and short Europe? I think it is a stock-specific trade rather than a macro trade. We view Europe favourably."

Everyone is interested to see how Greg Coffey gets on. Raising assets is hard and the market has changed so it will not be easy, but it should be interesting

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I am keeping Jabre from his colleagues and trading screens. "It is a fascinating industry," he concludes, adding that he is as passionate as ever. After more than three decades in hedge funds, and with a big bet on blockchain building, Jabre is exactly where he wants to be. ◘

THE TECH REVOLUTION

Jabre's assertion that today's market outlook feels like the 1990s is underpinned by how he assesses US equities – with the main internet technology names stripped out. "S&P 500 Index names are currently averaging at about 17-times price-to-earnings," he explains, but tech stocks are trading on far higher PE ratios. "Because of their strong gross profit, the tech names have contributed about 50% of the growth of the S&P 500, even though they only represent 30%... So when people say the S&P 500 is expensive, it is fact the tech stocks that are expensive. Aside from tech the market looks like the 1990s." His firm still holds tech companies. "Our analyst on tech names keeps showing us how Amazon and peers have revenues and profit margins 10 times higher than 10 years ago," he says. "The revolution is extraordinary, which means we need to hold these names, whether we like them or not. For years people said Amazon was a short, but look at its recent progress. Is anyone saying that anymore?"