Specialist vol manager Fusion targets corporates, institutions with new liquidity hedging services

Fusion Asset Management has begun offering corporates access to its liquidity hedging services, which have until now been primarily used by funds of funds.

The move follows discussions last year with a large European exporter, which asked Fusion to develop a tailored overlay for its foreign-exchange hedges – something that banks had been unable to provide.

Fusion now has a sales force specifically focusing on promoting the service to corporate clients, having hired sell-side specialists Kulmit Bhambra and Anushruthi Rai late last year from HSBC and Bank of America Merrill Lynch respectively. The duo began by engaging US and European corporates, and are now also approaching companies in Japan.

As an asset manager, Fusion runs a range of pooled funds including long-only and long/short volatility trading strategies, as well as systematic currency and macro offerings.

Fusion began developing its advisory service post-2008, when it was revisited by funds of funds that had been clients before liquidity constraints elsewhere had forced them to redeem. "We asked them what else we could do for them," says Kirill Ilinski, Fusion's CIO and founding partner. "What they wanted was a low-cost hedge."

The resulting service uses a combination of vanilla and exotic options to hedge against the impact that large-scale FX moves would have on a client's liquidity. Fusion devises bespoke trades designed to protect specific exposures held by that client, and also offers execution and maintenance services.

The advisory service is designed for clients that do not have their own existing trading desks or developed trading/settlement infrastructures – such as funds of funds, private equity outfits and pension funds, as well as corporates.

Kirill Ilinski

While FX hedging has proven most popular to date, Fusion can tailor its liquidity hedging services to cover exposure to all other types of asset. The firm currently advises on around $500 million worth of exposures, with the vast majority still coming from financial institutions.

"It's early days for us, with corporates," says Ilinski. "It takes longer than with funds of funds, which are in the business of making investment decisions. With corporates it has to go to the board, and this sort of decision means that changes need to be made to their corporate policy."

Fusion's pooled long/short volatility trading fund, Fusion Global Volatility, made 7% in 2011. The hedge fund has a long vol bias – with longs outweighing shorts by around 2:1 – and applies an absolute-return approach to diversified exposures across equities, FX, commodities and fixed income.

Launched in July 2010, the hedge fund grew out of Fusion's existing long-only volatility strategy, which has been running since 2007 and made 10.3% last year. Both funds use in-house volatility forecasting systems that are now also being applied to the bespoke advisory portfolios.

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