

# Aon InBrief: Gruss Capital Management LP

## Gruss Global Investors (Enhanced) Master Fund, Ltd

Review Date	Overall Rating	Previous Overall Rating
December 2017	<b>Sell</b>	Buy

### Overall Rating

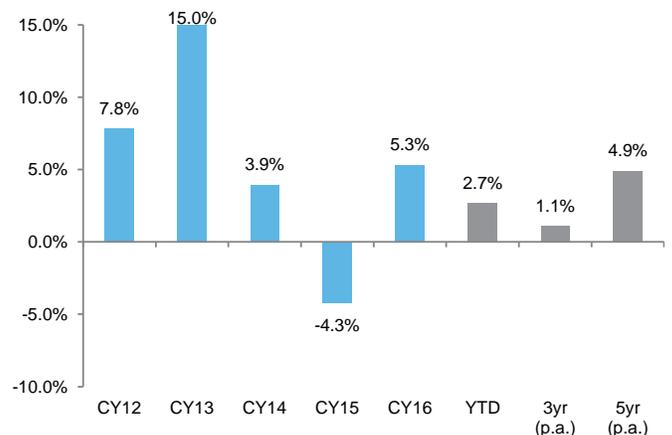
Gruss Global Investors (Enhanced) is an established event-driven fund led by an experienced CIO. The fund historically benefitted from a flexible multi-strategy approach, a disciplined focus on downside protection, and a relatively nimble asset size. However, recent underperformance has led to a shrinking asset base, leading the firm to reduce headcount. Whilst we believed the downsizing to be sensible, steps taken to improve the investment process have not been reflected in recent performance. In the near term, we have concerns that the continued underperformance could lead to further client redemptions and departures from the investment team. As such we believe it to be prudent to recommend a Sell rating for the fund.

### Component Ratings

	Rating	Previous Rating	Aon InForm Assessment*
Business	2	3	-
Staff	2	3	-
Process	2	3	-
Risk	2	2	-
ODD	Pass	Pass	-
Performance	2	3	-
T&C	2	2	-

\* We are not currently able to provide an Aon InForm Assessment for this strategy as the manager has not provided us with enough data to perform a meaningful analysis. We are working with the manager to collect the necessary data for future quarters.

### Absolute Performance to 30 Sep 2017



Performance (USD) is net of fees. CY = calendar year. Source: Manager

### Firm and Strategy Summary

<b>Head Office Location</b>	New York, NY	<b>Parent Name</b>	Gruss Capital Management
<b>Firm AUM</b>	\$1.2 billion	<b>Investment Staff</b>	10
<b>Hedge Fund AUM</b>	\$1.2 billion	<b>Hedge Fund Staff</b>	31
<b>Team Location</b>	New York, London	<b>Team Head</b>	Sean Dany
<b>Firm/Strategy Inception</b>	2000 / July 2008	<b>Strategy Size</b>	\$1.2 billion
<b>Performance Objective</b>	Not Applicable	<b>Risk Objective</b>	Not Applicable
<b>Fee</b>	1.50% or 30% performance fee		
<b>Hurdle Rate</b>	Not Applicable	<b>Lock-up</b>	1-year soft lock, 3.0% fee
<b>Redemption Terms</b>	Quarterly (45 days' notice)	<b>Currency Available</b>	\$, £, €

Note: Past performance is no guarantee of future results. Staff and AUM data as of 30 November 2017.

## Investment Manager Evaluation

Rating Sheet			
Factor	Rating	Previous Rating	Comments
<b>Business</b>	2	3	Gruss is a long-established manager in the event-driven space. Co-CIO Mark Smith left the firm in 2013, which initially did not appear to have a detrimental impact on the business. However, more recently the firm has experienced redemptions, with assets nearly halving over the past 12 months. In Q3, a large institutional client redeemed its allocation which led to the merging of the firm's two funds. We have downgraded the business rating due to concerns about further redemptions.
<b>Investment Staff</b>	2	3	In our opinion Gruss' senior investment team was well positioned to weather the departure of Smith in 2013; CIO Sean Dany brings to the table nearly two decades of event-driven investing experience at the firm. However, Mr. Dany's role was expanded to sole decision-maker for the fund and responsible for management of the investment teams in HK, London and NY. In an effort to reduce the reporting lines, and the need to cut headcount due to the shrinking asset base, there has been a substantial reduction in the investment team. Most recently with departures of senior members of the team in London.
<b>Investment Process</b>	2	3	The strategy casts a wide net in the event-driven arena, allowing for diversification and the flexibility to pick the best risk-adjusted investments from a broad opportunity set. It is based on detailed research and focuses on price targets, liquidity, and downside risk. Market risks are offset through the use of hedges, and the fund employs leverage in a risk-controlled fashion. The hedges had contributed negatively to performance and in late 2016 Mr. Dany announced changes to portfolio construction to address this issue. These changes are yet to improve performance and further enhancements were announced recently. We are downgrading the rating for Process as we have weakened our conviction in the process.

Rating Sheet			
Factor	Rating	Previous Rating	Comments
<b>Risk Management</b>	2	2	The CIO bears responsibility for both portfolio management and risk management, whereas we would ideally prefer to see a level of independent risk oversight. That said risk management is thoroughly integrated into the investment process. The manager places tight limits on expected losses for individual positions, and focuses primarily on liquid instruments.
<b>Operational Due Diligence</b>	Pass	Pass	Gruss is registered with the SEC and FCA, and uses high quality service providers including full third party administration. The firm has clear compliance procedures in place, and the fund has a majority independent board of directors. We would prefer to see the firm implement a more formalised pricing policy, but the high level of liquidity maintained in the portfolio offsets these concerns.
<b>Performance Analysis</b>	2	3	This product had delivered strong returns historically with a low level of associated volatility, with performance demonstrating good downside protection in falling markets, while lagging during strong market rallies. However, recent performance has disappointed and our confidence in the manager's ability to meet its return target going forward has diminished.
<b>Terms &amp; Conditions</b>	2	2	The fund's historical terms are in line with industry norms, whilst the new fee structure of 1.5% management fee or 30% performance compares favourably to peers. Client communication has been strong.
<b>Overall Rating</b>	<b>Sell</b>	<b>Buy</b>	Gruss Global Investors (Enhanced) is an established event-driven fund led by an experienced CIO. The fund historically benefitted from a flexible multi-strategy approach, a disciplined focus on downside protection, and a relatively nimble asset size. However, recent underperformance has led to a shrinking asset base, leading the firm to reduce headcount. Whilst we believed the downsizing to be sensible, steps taken to improve the investment process have not been reflected in recent performance. In the near term, we have concerns that the continued underperformance could lead to further client redemptions and departures from the investment team. As such we believe it to be prudent to recommend a Sell rating for the fund.

## Ratings Explanation

Below we describe the criteria which we use to rate fund management organizations and their specific investment products. Our manager research process assesses each component using both our qualitative and Aon InForm criteria. With the exception of Operational Due Diligence ("ODD"), each component is assessed as follows:

Qualitative Outcome	Aon InForm Outcome
1 = Weak	 <b>Pass:</b> This component in isolation meets or exceed our desired criteria
2 = Average	 <b>Alert:</b> This component in isolation does not meet our desired criteria, or the lack of data on this component means that we are not able to judge whether it meets our desired criteria
3 = Above Average	- <b>Not assessed:</b> There is a lack of data, which means that we are not able to assess this component, however we do not consider this in isolation to justify an Alert
4 = Strong	 Component has improved over the quarter  Component remains broadly unchanged over the quarter  Component has worsened over the quarter

The ODD factor is assigned a rating and can be interpreted as follows:

Overall ODD Rating	What does this mean?
<b>A1</b>	No material operational concerns – the firm’s operations largely align with a well-controlled operating environment.
<b>A2</b>	The firm’s operations largely align with a well-controlled operating environment, with limited exceptions – managers may be rated within this category due to resource limitations or where isolated areas do not align with best practice.
<b>Conditional Pass (“CP”)</b>	Specific operational concerns noted that the firm has agreed to address in a reasonable timeframe; upon resolution, we will review the firm’s rating.
<b>F</b>	Material operational concerns that introduce the potential for economic or reputational exposure exist – we recommend investors do not invest and/or divest current holdings.

Aon Hewitt previously assigned ODD ratings of pass, conditional pass, or fail for the ODD factor. We are in the process of refreshing all ODD ratings to the new terminology. During the transition period, the prior ratings, as follows, may persist in some deliverables until the ODD factor rating is converted to the above noted letter ratings.

- **Pass** – Our research indicates that the manager has acceptable operational controls and procedures in place.
- **Conditional Pass** – We have specific concerns that the manager needs to address within a reasonable established timeframe.
- **Fail** – Our research indicates that the manager has critical operational weaknesses and we recommend that clients formally review the appointment.

An overall rating is then derived taking into account both the above outcomes for the product. The overall rating can be interpreted as follows:

<b>Overall Rating</b>	<b>What does this mean?</b>
<b>Buy</b>	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
<b>Buy (Closed)</b>	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
<b>Qualified</b>	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
<b>Sell</b>	We recommend termination of client investments in this product
<b>In Review</b>	The rating is under review as we evaluate factors that may cause us to change the current rating

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

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Aon plc/Aon Hewitt Limited Registered office The Aon Centre The Leadenhall Building 122 Leadenhall Street London EC3V 4AN	Aon Hewitt Investment Consulting, Inc. 200 E. Randolph Street Suite 1500 Chicago, IL 60601 USA	Aon Hewitt Inc./Aon Hewitt Investment Management Inc. 225 King Street West, Suite 1600 Toronto, ON M5V 3M2 Canada
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