

Title: The Irish Goodbye Pt. 1: ICAVs, or How a Total Return Swap walked out the back door and into Ireland

Author: throwawaylurker012

Created 2022-02-18 03:07:53 UTC

Permalink: /r/DDintoGME/comments/sv7ajp/the_irish_goodbye_pt_1_icavs_or_how_a_total/

Url:

https://www.reddit.com/r/DDintoGME/comments/sv7ajp/the_irish_goodbye_pt_1_icavs_or_how_a_total/

****TL;DR:****

* **Ran across several "sub-funds" who are part of a larger umbrella fund commenting on the January sneeze. These sub-funds are ran by a company called Montlake. In 2016, Montlake became an ICAV, or Irish Collective Asset-Management Vehicle.**

* **ICAVs are headquartered in Ireland. They have major tax advantages, and make it very easy for you to move funds with assets from places like the Cayman Islands to Ireland. They also employ "segregated liability", where one fund's actions (even if audited) don't fuck shit over for the other funds in the umbrella. Citadel has several ICAVs.**

* **Turns out one of the OTHER sub-funds in the Montlake umbrella was short GME (and other meme stocks) through a total return swap. Morgan Stanley was the counterparty.**

EDIT: Edited some words, formatting, bolding and more pictures. Also editing a short preface and final comment

0. Preface

Hey y'all it's your friendly neighborhood throwawaylurker012 and this week I'm using Mexican jumping beans as suppositories.

Now I've been meaning to finish my "The Big Mall Short" (I fucking swear) but keep getting distracted.

On that note, I'm hoping to keep this series SUPER SHORT before I get back to that sweet sweet mall-shortening goodness.

****The Irish Goodbye: Pt. 1 ICAVs, or How a Total Return Swap walked out the back door and into Ireland****

****Sections:****

1. ****No Comment****
2. ****Acronyms! From PIIGS... ****
3. ****...to ICAV****
4. ****The Replacements****
5. ****Sub-Funds are Sub-Fun****
6. ****Gesundheit!****
7. ****Swapping Spit with Mr. Stanley****
8. ****More Acronyms! Finding a TRS through ISIN****
9. **** (Counter)party of 2****

1. No Comment

Mere days after the “sneeze” last January 2021, a little-known hedge fund called Collidr Asset Management published a very special commentary to the investors in one of its funds:

>“However, at month end...**increased volatility due to investors on a Reddit message board co-ordinating to impact the price of some hedge fund popular shorts positions such as Gamestop and Silver, pushed equities into negative territory.”**

They, of course, weren’t the only ones to cry foul to their sugar daddies & mommies after GME and other meme stocks spiked. As the buy button turned off and the price of meme stocks divebombed, another quiet hedge fund called Kingswood scribbled down its own notes to backers of its own fund:

>***“Markets are all about price discovery and the ability of a few small investors to dramatically change the price of companies like GameStop reduces confidence in the system to function properly.** The consequence is that investors look to reduce exposure and this was evident in a dramatic deleveraging event in the final week as many market participants reduced the level of risk they were taking...”

So by month’s end, 2 seemingly random funds opted to leave their investors at least something to nibble on and calm their tits. I imagine that some of their investors’ took to heart their certain je-ne-sais-quoi of “wtf did you do retail! You might be fucking up my money pit gains!”

I’m sure that Collidr & Kingswood’s investors might have been compelled by this take. **But we shouldn’t be, fellow apes.**

And to dig in to why, let’s hop into the time machine of our choice and take a trip.

2. Acronyms! From PIIGS...

Now let’s teleport through time and space fellow apes. Set your dials to the past, as we’re heading back in time to 2010, less than two short years after the 2008 crash decimated the world economy. To be a little more specific, we’re heading to mid-2010. This was just a few months after Michael Lewis revealed his book “The Big Short” to the world, dropping a truth-bomb with the force of RC dropping his massive nutsack on a diminutive plate of custard.

It’s a time when the acronym PIIGS was floating around. This acronym stood for some of the hardest hit European nations during the recession after the 2008 crash. PIIGS stands for Portugal-Ireland-Iceland-Greece-Spain.

For our sake, we’re looking at that second letter I. **Apes, turn your dials as we’re heading to one of the hardest hit nations of that crisis: Ireland.**

Now that you're here, grab yourself a pint from the nearest pub, and stroll through the gorgeous city of Dublin until you finally find yourself standing in front of this nondescript building sandwiched between the warm lakes of St. Stephen's Green and the fashionista fuzz of the nearby shopping centre.

Welcome to Heritage House.

****In 2010, an investment company was stationed within the walls of this building. Its purpose? To operate as an umbrella fund.****

****Like many umbrella funds, the giant fund located here consisted of itty-bitty tinier funds called "sub-funds".**** Sub-funds are essentially small funds where the wealthy can park their cash whenever they want and pull out faster than my small wee wee behind a Wendy's dumpster.

The sub-funds that sat inside the umbrella fund inside Heritage House had a common appeal. ****Luckily,** these "sub-funds" could go tits up and not affect the other funds at all. This is wrapped up in a bit of legalese magic called "segregated liability".******

In that sense, you can think of an umbrella fund having some qualities that overlaps with groups like DAOs (think "decentralized autonomous organizations" like pleasrDAO) or—perhaps a better metaphor—the Wu Tang Clan, where the group can be made up of several rappers. ****In the case that one rapper, like Ol' Dirty Bastard (RIP) goes to jail, it doesn't necessarily fuck shit up for RZA or Ghostface Killah where they then get locked up too.****

****Remember those funds Collidr and Kingswood? Those are actually "sub-funds". And those "sub-funds" are stationed next to each other in the larger umbrella fund that was originally created here in Heritage House.****

The creator of that umbrella fund is called Montlake.

3. ...to ICAV

In 2010, a company known as Montlake helped launch the umbrella fund that found its home here next to St. Stephen's Green. And just a few short years later after Montlake had launched the original iteration of this fund, in 2016, Ireland's Central Bank signed off on Montlake giving itself a new coat of paint.

****The Irish Central Bank let that company morph into what is now called an ICAV, or "Irish Collective Asset-management Vehicle".**** Shortly after Montlake submitted the necessary AR1 form to make this

distinction, this subtle change in its structure allowed it to avoid a lot of Irish and European requirements for its funds.

For any ICAV, there are—of course—some requirements that you can't avoid; for example, 2 of the directors for any ICAV MUST be Irish nationals.

****But at the end of the day, ICAVs are more generous than they are restrictive. For one, an ICAV does still allow for each itty bitty “sub-fund” (like Collidr or Kingswood) to be audited individually. Shit can go down in one sub-fund (Collidr going tits up or doing crime shit) without it affecting the sub-fund sleeping in the room next door (think Kingswood). This is that “segregated liability” that we talked about.****

ICAVs can also offer potential investors the chance to dump their cash into these sub-funds by offering shares of each fund. This wouldn't be that much more different than you buying or selling shares of GME; instead, you're buying shares of whatever the fuck the sub-fund wants to pitch you.

****Apart from making it easier to make it rain on hedgies like Collidr or Kingswood through those share purchases, ICAVs also help access double taxation treaties (being taxed in 2 countries when you live in 1 but invest in another). These vehicles can also be structured to make taxes easier on you, especially if you're a US investor**. One fund manager talked about how ICAVs can easily “tick the box” for US tax reasons, but is easier to administrate since it doesn't have to deal with annual general meetings & the necessary shareholder sign-offs more central to European regulation of such funds.**

With that, it gives perhaps ICAVs biggest appeal: it can effectively change your fund's “home address” from one country to another—namely, Ireland—super fucking easy:

>“...****ICAV legislation provides straightforward procedures for the re-domiciliation by way of continuation of non-Irish corporate funds into Ireland as ICAVs, with migration into Ireland by way of continuation as an ICAV possible from the Cayman Islands, British Virgin Islands, Bermuda, Jersey and Guernsey.**** Under this process...the migration should not be a taxable event for investors...[maintaining\] continuity of contractual arrangements and performance track record...”

****So, if you have a fund centered in little ol' somewhere, hm, like OH, I DON'T KNOW MAYBE THE UGLAND HOUSE IN THE CAYMAN ISLANDS, then you can easily slap a passport sticker on it and it'll pull a quick Irish goodbye from the Caribbean to Dublin ASAP, tax-free.****

4. The Replacements

ICAVs haven't been covered too heavily on previous posts across different subs (at least to my knowledge). However, many of you have pointed out that our favorite mayonnaise enthusiast has a hard-on for them.

Kenny G is a proper fucking fan of ICAVs; most recently, he had created an ICAV for his fixed income (think bonds, like municipal bonds) side of things (or crime?) This “Citadel Global Fixed Income Fund (Ireland) II ICAV” (“...an umbrella fund with segregated liability between sub-funds”) says one of its uses is the following:

>“..*\\.to employ, utilise or invest in derivative instruments and techniques of all kinds for investment and efficient portfolio management purposes...*\\.to enter into, accept, issue and otherwise deal with...futures contracts, options, securities lending agreements, short sales agreements, delayed delivery and forward commitment agreements, foreign currency spot... **contracts, swaps...**

That particular fund was registered with the SEC in Nov. 2020, and registered reference #C163732 with the Irish Central Bank on Feb. 19, 2021.

And of course, it's not the only one! You also have:

* **Citadel Multi-Strategy Equities Fund (Ireland) ICAV, consolidated with a bigger fund late 2017**

* **Citadel Global Equities Fund (Ireland) ICAV, first registered with the SEC in 2016**

Many of these are linked to a “Citadel Global Equities (Ireland) Designated Activity Company” that Mayoboi registered with the SEC six years ago in Sept. 2016.

At the very least, we can see that Citadel has at least a handful of ICAVs on their own books. Perhaps Kenny G's use for these might be to replace certain funds stationed elsewhere (unlike his Kensington Funds centered in the Caymans) and migrate them over to Ireland to avoid taxes. Or to funnel certain derivatives schemes. Who knows.

Not every reason might be the same for every umbrella fund like Montlake that chooses to become an ICAV. Just like not every sub-fund might have the same portfolio in mind despite being part of the same car ride.

And a few years after inception, MontLake's minivan just got a bit more packed.

5. Sub-Funds are Sub-Fun

As of 2016, Montlake's newly formed ICAV was growing.

It was now a mix of its older money pools—like its Tosca fund, which had been investing in UK microcaps since their Heritage House days back in Oct. 2010) and newer ones. **But it wasn't until 4 years back that another group joined the chat: Cooper Creek.**

Headquartered in NYC, Cooper Creek Partners is also an under-the-radar hedge fund like fellow sub-funds Collidr & Kingswood (hard to trust this, but Whale Wisdom puts Coop at 4 clients). Creek's been pooling investor money for quite some time, dropping SEC filings like RPG enemies drop loot since 2008.

Nearly ten years later in November 2018, Cooper Creek joined the Montlake gang. The same month, the New York firm filed with the SEC that it was offering equities (think "shares" that investors can buy or sell) in a "pooled investment fund interest" for its investors. No Splenda daddies or mamas here; investors dropped \$91 million into that unnamed fund according to the SEC. (For comparison, rn Cooper Creek's Montlake fund has 1.1 million shares issued, and a "market cap" of \$173 million).

Alongside brother and sister funds like Collidr & Kingswood, Cooper Creek launched its own sub-fund. That sub-fund was called the "North America Long Short Equity UCITS Fund", which had a mix of stocks it either went long on or short. Montlake included it as part of its ICAV "umbrella" of sub-funds. And although Cooper's new fund might have taken a quick titty flash of a look at companies based out of maple-syrup-land or Eurovision competitor nations, **one thing really got its dick hard: US small- and microcap firms:**

>"The investment objective of the Sub-Fund is to achieve long term capital appreciation. The Sub-Fund seeks to achieve its investment objective by gaining exposure (on a long and/or short basis) to U.S. equities and equity related securities...of small-cap...and mid-cap companies (market capitalisation of US\$250 million to US\$10 billion)."

Montlake made it so that not only could US investors pile in, but Swiss & German peeps could as well as long as they were willing to pay all the management fees and shit. The fund was promoted on sites for investors in Spain as well.

6. Gesundheit!

By the end of December 2020, Coop's fund—at the time—contained 21 longs and 13 shorts. But after the New Year rolled in, they eventually admitted to their investors that...well, they hadn't done too hot and their short bets pegged them in the arse more than they had hoped for:

>"**On the short side, unfortunately we got caught in the short squeeze in the last week of January.** As \[we spend lots of time\] focusing on...a stock-specific catalyst-driven short portfolio, this...may occur from time to time in speculative, volatile market environments...\[Our\] Sub-Fund was up 3.3% in the first half of 2021. While our longs continued their strong pace, contributing 38.1% to the SubFund

performance...shorts cost \[us\] 34.8%...\[thus generating\] a 6.3% return..."

Remember our talk of "segregated liability"? Now we know that alongside fellow Montlake boy band members Collidr & Kingswood, those same sub-funds next door were complaining about rEtAiL iNvEsToRs leading to the "sneeze" when the buttfuck Cooper Creek sub-fund down the hall had its dick in the mayo jar as part of the short side. You can also taste the "segregated liability" bullshit that 2 funds parrot to their investors, all while keeping them in the dark about the crime scene fingerprints building up on another floor in Heritage House.

And yeah welp, sucks to be you Cooper Creek. But wait. Hm.

...dropped bets from a short position...in January 2021...could it be...what if I read further...

>***"We had an under 1% exposure to GameStop (GME) on the short side."***

Boom, there it is.

Cooper Creek ends up admitting in this same Montlake letter ("Condensed Audited Financial Statements") that it had exposure to GME.

>"As part of our risk management, we covered approximately half of the position on 26 January and the rest on 27 January. **We also had two other short situations, which had become retail frenzy darlings and also experienced unprecedented moves due to the Reddit/Robinhood craze. We fully covered both of those positions as well.**

>

>In addition to covering these names, we exited four more small-cap short positions and cut three additional small-cap short positions in half just in case the retail community went after them next. These short situations in aggregate cost the Sub-Fund over 6% in January."

So it wasn't just GME, and they could have been short on other "meme stocks".

I haven't been able to figure out just yet what these other small-cap positions were. There's been a bit of a reporting gap between Montlake's annual financial statements released 2x a year at the end of June and December (and hope some of you apes can help dig further!) But from what I can tell, there was no reporting of any GME or other "meme stocks" (sticky floor, KOSS, etc.) in their Dec. 2020 letter, but there was in their June 30th letter in 2021.

**Either they jumped on the short late, or hid it some other way. Knowing this now, it turns out that not only was this Irish ICAV holding sub-funds that got hurt during the squeeze, but that another sub-fund ALSO

had shorts open on GME.**

7. Swapping Spit with Mr. Stanley

At this point, some of you might argue none of this is entirely remotely interesting or new; apes have found probably hundreds of cases of nearly every fucking hedge fund with a pulse having shorted GME at this point.

What made this Cooper Creek Partners case particularly interesting to me though was that—to my knowledge—Coop Creek never showed up on Fintel or similar sites with puts or “short” positions on GME.

So how did they hold short exposure on GME?

Of all the sub-funds that Montlake contained, Montlake’s Cooper Creek fund was one of the few set up using a total return swap.

For those of you unfamiliar with total return swaps and what they are, u/ FlacidPasta **had a fucking boss ass breakdown on just what total return swaps are and how they can be used to short stocks like GME (without holding puts or registered short positions):**

>“ETRS (equity total return swap) is a form of synthetic equity swaps, which can be used to take a synthetic short position.

>

>**The SHF, instead of borrowing shares from a prime broker and selling them short, they issue a total return swap, where SHFs pay the return of the underlying share (hoping it's negative, earning a deferred unrealized gain**) and the prime broker pays SHFs a floating rate (Fed Funds + spread - borrow cost; in this case). SHFs prime brokers will borrow the shares for its own hedge and sell them short, and will pass on the cost of the stock borrow to SHFs (by deducting it from the floating rate)."

In our case then, our SHF was Cooper Creek. Instead of borrowing GME shares and selling them short, a prime broker borrows the shares (from let's say Fidelity or IBrokers) and sells them on their behalf. Leafing through the document, you can find out that this total return swap had a big US bank as counterparty on the other side of the trade holding cash collateral (USD) for it. **That counterparty was Morgan Stanley.**

And knowing that Morgan was the counterparty**\, it might have been the twatwaffle primebroker who had to help short the stock “to meet the return profile as the counterparty to the ETRS.”**\

The cost of keeping that TRS open with Morgan meant Coop informed its Montlake investors that charged expenses included swap finance costs at \$165K as of July 2021 ** (but that was nearly nowhere as bad as its swap expenses at the end of Dec. 2020, at \$405K)**.

While this might be a new development for some whom haven't been following these subs from Day 1 (or GME back in our runic glory days), this—to some degree—isn't a revelation. And that's because other users have already found other total return swaps that might contain GME.

8. More Acronyms! Finding a TRS through ISIN

****FlacidPasta**, alongside other BAMFs like **** u/ Kidnap **** and **** u/ wellmanneredsquirrel****, have been tracking total return swaps for quite some time and put together a metric shit ton of useful resources I've used here.**

Earlier, ****I** had asked myself why the ever loving fuck can't we find Cooper Creek on Fintel****** (politely, I swear). And the utter chad that **FlacidPasta** is, they had already answered this many moons ago:

>******"The reason you're not seeing the issuer of the ETRS in the filing is because swap disclosure isn't necessary for 13F. Remember, Archegos was able to take on tens of billions of dollars of exposure to stocks including ViacomCBS through total return swaps, a type of "synthetic" financing that is popular with hedge funds since it allows them to make very large bets without buying the shares or disclosing their positions as they would if they owned the stock outright."******

>

>That's how they were able to swindle a bunch of prime brokers simultaneously, because that "inhouse asset ID" is tied to the bank, not the HF."

******So the reason why we might not be able to see any disclosure in a Cooper Creek 13F (or an SEC filing from any of its investors) is because the nature of the total return swap hides it******. There might be a chance that Morgan has it tied to an "in-house asset ID", but not much else.

****I** was eventually able to track down the ID for Cooper Creek's fund that had been short GME: IE00BG08NM85.****** This ID is called its ISIN, or International Securities Identification Number. It's been described as a "12-digit alphanumeric code that uniquely identifies a specific security". Its much like CUSIPs for GME (the number that everyone sees on their DRS letters representing our favorite stock). Just like CUSIPs, ISINs operate almost like gamer tags and can help you identify who or what you're up against.

Each ISIN also makes a note of its country of origination. ******Because this is part of an ICAV, it signals its Irish "heritage" with the first 2 letters "IE" which stand for "Ireland."****** You can actually compare this to the funds that **u/ Kidnap** first wrote about and posted to the DD into GME sub. ******Tracking back to July 2020, they found 4 total return swaps potentially containing GME (correct me if I'm wrong fam!).******

* Invesco PureBetaSM MSCI USA Small Cap ETF (S000058747): 2020-05-31

[https://www.sec.gov/Archives/edgar/data/0001378872/000175272420148730/primary_doc.xml](https://www.sec.gov/Archives/edgar/data/0001378872/000175272420148730/primary_doc.xml)

* NVIT U.S. 130/30 Equity Fund (S000067312): 2021-03-31

Counterparty: JPMorgan Chase

[https://www.sec.gov/Archives/edgar/data/0000353905/000175272421105000/primary_doc.xml](https://www.sec.gov/Archives/edgar/data/0000353905/000175272421105000/primary_doc.xml)

* NVIT U.S. 130/30 Equity Fund (S000067312): 2021-06-30

Counterparty: JPMorgan Chase

[https://www.sec.gov/Archives/edgar/data/0000353905/000175272421178646/primary_doc.xml](https://www.sec.gov/Archives/edgar/data/0000353905/000175272421178646/primary_doc.xml)

* Putnam PanAgora Market Neutral Fund (S000058312): 2021-02-28

Counterparty: Morgan Stanley

[https://www.sec.gov/Archives/edgar/data/0000932101/000086939221000828/primary_doc.xml](https://www.sec.gov/Archives/edgar/data/0000932101/000086939221000828/primary_doc.xml)

Looking at this list, however, you'll notice that Morgan Stanley is here alongside Dimon's Chase. And yes, the very same Morgan that Cooper Creek was so fond of for its sub-fund.

9. (Counter)party of 2

I tried to deep dive into these XML files but couldn't find much, but was able to dig a bit further into Cooper Creek's info.

Two additional sources stated that the fund also had the following tags, but I've yet to fully confirm these:

- * Symbol: MLCCUIP (Montlake Cooper Creek UIP?)
- * FIGI (Financial Instrument Global Identifier): BBG00LXP27C0
- * Composite FIGI: BBG00LXP27C0
- * Share Class: BBG00LXR5S37

I realized that I had a bit of trouble somewhere; I didn't know if the "in-house asset ID" on the books for Morgan might match the ISIN for Cooper Creek (and frankly, I'm still digging). **I tried to gain access to a free ISIN account but would have to pay an obscene amount frankly (\$500) to access something I might only use for a few minutes.**

It would have been fucking awesome to tell you all I found some further link but alas, a dead end.

****However, I do know one question does stick in my mind: why didn't Cooper Creek show up in** u/ Kidnap's initial swap search? Does it have to do with the fact that the sub-fund is "stationed" in Ireland? And if so, could there be wayyyyy more total return swaps somewhere sitting on Irish books that we don't know about.****

If nothing else, this is just the start of this rabbit hole I hope. In the same Kidnap thread, ****FlacidPasta** commented about how JPMorgan's position in the NVIT fund made them think about which big bank may have been holding the biggest bag.

>"NVIS 130/30 is one fund. And their GME short is relatively small. ****I'd want to know which funds currently have the largest synthetic short positions via ETRS, and how their positions have changed from 12/31/2020 to 3/31/2021 as well.****

>

>****I'd want to know the total swap exposure outstanding on GME ETRS, and I would want to see those positions categorized by counterparty prime brokers (to see which bank has the largest exposure). I'd want to see the largest funds with GME swaps, because those are the funds who are most likely to exit their trades first if shorting via broker is no longer an option. And I'd want to know which broker they're a client of.****

If nothing else, here's one more for the books: Morgan Stanley, confirmed counterparty of 2. And even though I did hit a dead end here with Cooper Creek's ISIN, it—of course—didn't mean that I haven't stopped digging elsewhere.

****TL;DR:****

*** **Ran across several "sub-funds" who are part of a larger umbrella fund commenting on the January sneeze. These sub-funds are ran by a company called Montlake. In 2016, Montlake became an ICAV, or Irish Collective Asset-Management Vehicle.****

*** **ICAVs are headquartered in Ireland. They have major tax advantages, and make it very easy for you to move funds with assets from places like the Cayman Islands to Ireland. They also employ "segregated liability", where one fund's actions (even if audited) don't fuck shit over for the other funds in the umbrella. Citadel has several ICAVs.****

*** **Turns out one of the OTHER sub-funds in the Montlake umbrella was short GME (and other meme stocks) through a total return swap. Morgan Stanley was the counterparty.****

EDIT 3: Also fucking hell, poor taste of me! Here are the most important sources (I felt) for this post (at minimum had 20 sources):

1. [https://www.montlakeucits.com/files/6116/1312/2633/Purple_Global_Adaptive_Equity_UCITS_Fund_Factsheet_-_Jan_2021.pdf](https://www.montlakeucits.com/files/6116/1312/2633/Purple_Global_Adaptive_Equity_UCITS_Fund_Factsheet_-_Jan_2021.pdf)
2. [https://www.montlakeucits.com/files/7116/1356/4520/Factsheet_-_Kingswood_Defensive_Alpha_-_January_2021_ML.pdf](https://www.montlakeucits.com/files/7116/1356/4520/Factsheet_-_Kingswood_Defensive_Alpha_-_January_2021_ML.pdf)

3. [https://www.montlakeucits.com/files/2315/8134/4798/Cooper_Creek_Factsheet_-_Jan_2020.pdf](https://www.montlakeucits.com/files/2315/8134/4798/Cooper_Creek_Factsheet_-_Jan_2020.pdf)
4. <https://doc.morningstar.com/document/079bed889fbcd1a38f8a8c23695ed1e2.msdoc/?clientid=euretailsite&key;=9ab7c1c01e51bcec> (the Montlake/Cooper doc mentioning GME)
5. <http://registers.centralbank.ie/ICAVDocuments/C439830/Instrument%20of%20Incorporation%20on%20Registration.pdf> (Citadel's docu)
6. [https://www.sec.gov/Archives/edgar/data/0001450774/000091957418006886/xslFormDX01/primary_doc.xml](https://www.sec.gov/Archives/edgar/data/0001450774/000091957418006886/xslFormDX01/primary_doc.xml) (Cooper's fund offering around time they launched Long/Short fund in 2018)