

April 2018 Newsletter

Dear Investor,

The Global Volatility Summit (“GVS”) brings together volatility and tail hedge managers, institutional investors, thought-provoking speakers, and other industry experts to discuss the volatility markets and the roles volatility strategies can play in institutional investment portfolios. The GVS aims to keep investors updated on the volatility markets throughout the year, and educated on innovations within the space.

Think Tank Panelist Ryan Hass has provided the latest piece in the GVS newsletter series.

Cheers,
Global Volatility Summit

Event

The ninth annual Global Volatility Summit (“GVS”) is scheduled for Wednesday, March 14th, 2018 at Chelsea Piers in New York City. Alongside our featured volatility managers, we are excited to announce the addition of a Quantitative and CTA manager panel, featuring prominent portfolio managers in the space to share their views on the volatility markets and resulting impact on these strategies.

2018 MANAGER PARTICIPANTS

36 South Capital Advisors
Argentière Capital
Artemis Capital Management
BlueMountain Capital
Capstone Investment Advisors
Capula Investment Management
Dominicé & Co
III Capital Management
Ionic Capital Management
JD Capital
Man AHL
Parallax Investment Advisors
Pine River Capital Management
True Partner

2017 Event Recap

The 8th annual GVS featured fifteen volatility and tail hedge managers and hosted senior investment representatives from the largest global pensions, sovereign wealth funds, endowments, foundations, and insurance companies. The 2017 keynote speakers were the Founder of The Huffington Post, Ariana Huffington, and Bestselling Author, Daniel Gilbert.

KOREA: Modest Agenda for Talks Could Keep Korea Risk Low

From: Kevin Nealer, Ryan Hass, and Bob Goldberg

Date: April 6, 2018

Key Judgements:

- The Kim-Moon summit will likely produce follow-on talks over a period of months, reducing Korea Peninsula risk as long as dialogue is ongoing.
- There has been little preparation for the Kim-Trump meeting, but there are signs that the Trump administration is scaling back its expectations and could accept a relatively inconclusive outcome as a success.
- Withdrawal from the JCPOA Iran nuclear deal would likely be viewed by North Korea as a sign that the US is not willing to keep its commitments, even when the counterparty is in full compliance.

Our base case has been that as long North and South Korea continue to talk, and the North refrains from nuclear or ICBM tests, the risk of US kinetic action is negligible. **The Kim-Moon Summit, scheduled for April 27, is likely to produce follow-on talks that could play out over many months, putting a floor under risk. In addition to South/North talks, Kim's diplomatic calendar through the summer will also likely include planned or expected meetings with Trump, Putin, Abe, and again with Xi. This diplomatic calendar will likely mitigate risk of rapid escalation or conflict through the summer.**

Thus far there has been little US interaction with North Korea to prepare for a possible Trump-Kim meeting in May/June. The North's lack of commitment, evidenced by complete official silence following Trump's public statement he would meet with Kim, leads some in Washington and Tokyo to conclude that the North may be content to focus on developing its relationship with the South and with China, treating the US as an after-thought. This would be a complete reversal of the DPRK's goal over the past four decades of talking only with the US (treating the South as a lackey of the US). When Kim met Xi in Beijing recently, Xi certainly encouraged Kim to focus on Seoul, hoping to drive a wedge between Washington and Seoul; (Chinese sources are reporting that Kim also proposed a return to Six Party talks – yet another device for reducing the role of the US in managing issues on the peninsula.)

Without meaningful encouragement from the North, US officials are preparing an agenda. While it's impossible at this stage to know with confidence what objectives the US will pursue in a meeting with Kim, **there are indications that the Trump administration is scaling back expectations and would consider a Trump-Kim meeting to be a success if the US got the following:**

- 1) Return of the three US citizens being held in North Korea,
- 2) North Korean agreement to freeze/suspend long-range missile and nuclear tests while talks with the US and South Korean talks continue, and;

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- 3) North Korean agreement to discuss denuclearization, with the specific definition of what this would entail left to the negotiators.

What Kim would demand in return from the US- remains largely unknown. Based on past experience, we believe that Kim would want:

- 1) Credible loosening of sanctions to show American good faith,
- 2) A declaration that the time has come to heal the breach of the past seventy years, perhaps without spelling out what that means (it probably would not initially include a peace treaty), and;
- 3) A return to the six party talks or a similar arrangement that includes China and Russia who would effectively have the North's back in talks with the US.

USG officials appreciate that the North will be looking closely at what Trump decides on May 12 regarding the JCPOA nuclear accord with Iran. If Trump effectively withdraws from the JCPOA, this is likely to be taken by Pyongyang as proof that Trump cannot be trusted to uphold an international agreement that the US has signed, and with which Iran is in full compliance. Instead, Trump willingly repudiates any deal he does not like, and may subsequently prepare to take military action – fortified with the intelligence derived from a robust inspection regime.

Some American officials involved in planning a Trump-Kim meeting believe that Kim and others (including South Korea) will understand the distinction that the Iran deal was an Obama agreement, so Trump does not regard it as binding. By contrast, any agreement/understanding with Kim would be a Trump “deal”, and thus one he would support and protect. A contrary view is that the North will, at best, simply play out talks forever, believing the US is committed to regime change, not a deal. By drawing out talks with the US, Kim can placate Beijing while driving a deeper wedge between South Korean and US interests.

Team Trump appears to have shifted from reviewing military options regarding North Korea to simply re-engaging where Obama left off, before the North had achieved its additional nuclear and ICBM successes. This suggests they may want to pause Pyongyang's nuclear and missile progress and defer the North Korean issue as they turn their attention – and capability – to an intensified approach to Iran, following repudiation of the nuclear agreement.