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Opalesque Round Table Series '12

AUSTRALIA

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Editor’s Note

Australian fund managers ”a breath of fresh air”, says Julian Robertson

When Julian Robertson last visited Australia he said Australian fund managers are ”a breath of fresh air”, operating in a ”financial environment far more promising” than what he sees back home in the U.S. At the same time, he was surprised how little institutional money the hedge funds here were running. Over one year has passed since those comments, and our Opalesque 2012 Australia Roundtable held in Melbourne in May gives an in-depth update on this fourth largest pension market and its impressive hedge fund community.

Performance of Australian hedge fund managers in aggregate is very good, outperforming both offshore peers as well as their local benchmarks

Aussie hedge funds are strong performers with astute risk management, but so far, large Australian institutional investors often focused their attention offshore for global absolute return exposure, however currency and hedging costs have been a big drag on performance. Australian asset consultants and large investors have therefore significantly added internal research capabilities directed at alternative investments and started to allocate more to domestic hedge funds.

The asset base of Australia’s superannuation funds, where employers have to pay a minimum of 9% of every employee’s salary to a registered fund, stands now at around A$ 1.4 trillion and keeps rising. However, 36% of those assets are now managed in selfmanaged superannuation funds or SMSFs. These are essentially individuals who want and are able to manage and be responsible their their own financial retirement and represent the largest single segment of the superannuation industry.

How Aussie hedge funds set up multi channel distributions, expand overseas and deal with fee discussions

Some Australian hedge funds have successfully set up multi-channel distribution to retail, mezzanine, institutional, high net worth and strategically target these SMSFs. In addition, a number of Australian funds have opened offices in Hong Kong or Singapore over the last 12 months. The main motive is to be to closer to the investors from North America and Europe traveling to Asia.

Australian hedge funds successfully market to high net worth individuals and fund of funds, whose primary focus is on performance. The typical hedge fund fee structure in Australia is 1.5% management fee and 20% performance fee. Despite frequent debates over these fees, smart institutional money understands that exceptional talent is in short supply, and are therefore prepared to pay for it. As elevated volatility will be around for a while, Australian and global investors are forced to look at fee-adjusted return and other parameters like volatility-adjusted returns and returns per unit of risk.

Hear from:

- **Mark Wightman,** Head of Alternatives Strategy, SunGard
- **George Colman,** Principal and Portfolio Manager, Optimal Fund Management Australia
- **Mark Burgess,** Principal of Kardinia Capital and Portfolio Manager of the Bennelong Kardinia Absolute Return Fund
- **Jarrod Brown,** CEO of Bennelong Funds Management
- **Henk Huitema,** Head of Singapore Branch, Eurex Group
- **Peter Los,** Founder, Managing Director and Portfolio Manager of Eye Management
- **Chris Gosselin,** Founder, Australian Fund Monitors

... background and facts about:

- How are changes in asset allocations effecting the Australian alternatives managers?
- Who is the investor base in Australia and what are they asking of managers?
- How does the global regulatory environment impact managers in Australia?
- What is the reputation of UCITS funds in Australia?
- Why Australian managers are turning their focus to Asia?
- What are the benefits of Eurex Clearing’s recently introduced Client Asset Protection scheme for hedge funds and CTAs?

The Opalesque Australian Roundtable was sponsored by Eurex, SunGard and Australian Fund Monitors.

Matthias Knab
Director, Opalesque Ltd.
Knab@Opalesque.com

Cover Photo: Melbourne

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Mark Burgess, Henk Huitema, Mark Wightman, Chris Gosselin

George Colman, Mezhgan Qabool (Eurex), Peter Los, Jarrod Brown

Introduction

Mark Wightman
SunGard

My name is Mark Wightman and I am the global head of alternatives strategy for SunGard. In a nutshell, we are a Fortune 500 company providing a range of software solutions to over 400 hedge funds globally. Our products and services to this industry include decision support tools, portfolio management, risk management, fund, investor and partnership accounting and independent valuations services in both a hosted or local environment.

George Colman
Optimal Fund Management

My name is George Colman. With my colleague Peter Whiting, I am a Principal and Portfolio Manager at Optimal Fund Management Australia. We manage onshore and offshore versions of the same strategy: low but variable net exposure, long/short Australian equities, with a focus on large capitalization stocks. Our onshore fund commenced exactly two hours after Lehman filed for bankruptcy on the 15th of September 2008. Despite a difficult environment at that time, we are annualizing net returns of 15% per annum with low volatility, at 3.75% per annum. We have achieved those returns on an average net exposure of 15% of net asset value and we have used no leverage during that journey.

Mark Burgess
Bennelong Kardinia Absolute Return Fund

My name is Mark Burgess and I am a Principal of Kardinia Capital and Portfolio Manager of the Bennelong Kardinia Absolute Return Fund, a joint venture with Bennelong Funds Management. Our strategy is long/short Australian equity. Like George, we also employ a variable beta type strategy. The fund, which has been running for six years, has returned around 14.5% per annum, with an average net market exposure of 40%.

Jarrod Brown
Bennelong Group

I'm Jarrod Brown, CEO of Bennelong Funds Management, a wholly owned subsidiary of the Bennelong Group - a privately owned funds management and investment business. Bennelong Funds Management originally evolved from the management of the family office's private wealth. Our first boutique asset manager was Bennelong Long Short Equities Management, whose fund is now soft-closed. The launch of this market neutral strategy was Bennelong's foray from private to public asset management.

Since joining Bennelong in August 2008, we have grown to five boutique asset management teams, and have raised A$3.1 billion in Funds Under Management. Kardinia Capital is the latest addition to our suite.

Our current investor base is around 80% institutional and 20% retail investors. We are receiving strong net retail flows every day - in this tumultuous market, we don't take this level of support for granted. When developing the strategic plan for asset management, we obviously didn't anticipate two global financial crises. That said, it has been an exciting and satisfying ride despite the market vagaries. We are very proud of the partnerships we have developed with people such as Mark Burgess from Kardinia Capital, and look forward to continued growth in the year ahead.

Henk Huitema
Eurex Group

My name is Henk Huitema. I am head of the Eurex Singapore Branch from which we cover the Southeast Asia region including countries like Australia and India.

As one of the largest derivatives exchanges with a diverse offering in financial derivatives, Eurex Exchange focuses strongly on broadening our exposure in the respective markets to increase visibility of our products to the investment community. For this purpose the buy side is an important client base and we are pleased to be a global sponsor of the 2012 Opalesque Roundtables to enhance our relationship with our clients in Asia.

Peter Los
Eye Management

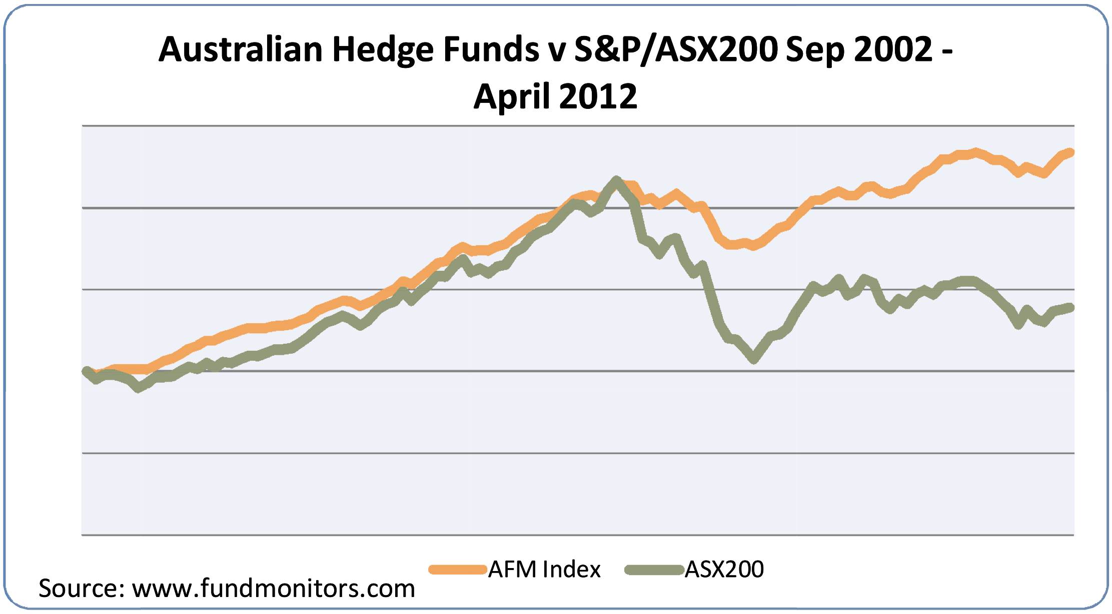
I am Peter Los, Founder, Managing Director and Portfolio Manager of Eye Management. We are the advisor to the Eye Investment Fund, which is a Cayman Island based fund. Our investor base is primarily of high net worth individuals and family offices from overseas.

We run a global absolute return fund which consists of two parts; one is the core investment portfolio and the other segment is our trading book. About half of the capital is invested in core investments, primarily long equity companies. That is done through a thematic and bottom-up research process. The other half of the book can be compared to a trading book consisting of different asset classes. Here we also express macro views and hedging. Our compounded average annual return is in excess of 15% since inception in March 2007 using very little to no leverage.

Chris Gosselin
Australian Fund Monitors

My name is Chris Gosselin from Australian Fund Monitors. Australian Fund Monitors has been researching and collating information on the absolute return on the hedge fund industry in Australia and publishing this on www.fundmonitors.com since 2006. We currently monitor over 280 funds offered by about 100 fund managers.

Performance of Australian hedge funds over the past five or six years has been very good with a strong outperformance of the S&P ASX 200.



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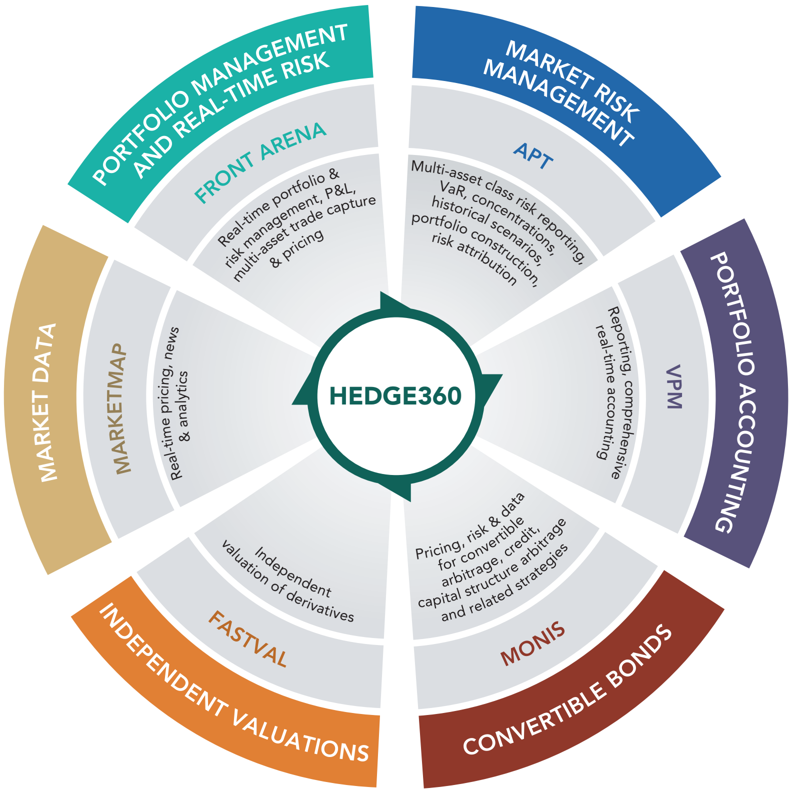

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Matthias Knab **I was visiting George in his office before and one of the things his partner Peter brought up was a comment from Julian Robertson when he visited Australia in March 2011 saying that Australian fund managers are "a breath of fresh air" who are operating in a financial environment far more promising than what he sees back home. At the same time, he was surprised how little institutional money the hedge funds here were running. Over one year has passed since those comments, what is the situation or the trend now?**

Mark Burgess It is quite possible that the amount of money being managed for institutions by alternatives managers is lower now than it was 12 months ago. Part of this is due to changes in asset allocation.

Another contributing factor would be the recent closure of the BT Total Return Fund, which was, domestically, one of the long-term supporters of our industry. The BT Total Return Fund had been running in excess of 10 years and has seeded a number of local start-ups over that time. The BT investment team was of high quality and enjoyed a very strong track record. The closure was a strategic decision made from the top and I understand that a reasonable amount of the money in the fund was sourced from BT internal funds.

In general, large Australian institutional investors who are engaged in the absolute return space seem to focus their attention offshore for global absolute return exposure. I think there is a concern over the capacity of domestic managers - a minimum allocation for the larger investors would be $50 or $100 million, which would represent a very large percentage of assets under management for most domestic fund managers. On that basis alone, most domestic managers are off-limits.

In addition, there seems to be a preoccupation with fee structures by domestic institutional investors, superannuation funds and asset consultants. When we meet with them, the discussion always seems to gravitate to fee structures. The typical hedge fund fee structure in Australia is 1.5% management fee and 20% performance fee, and it seems they are not comfortable with this. One reason is that they predominantly deal with the long-only domestic managers, which is a very competitive space. The average management fee charged by long-only managers continues to be under pressure - whilst it may have been 50 basis points a few years ago, a large long-only mandate could now be as low as 30, 20 or even 10 basis points. My strong impression is that some asset consultants' main focus is to negotiate fees down, with performance being a secondary consideration.

Mark Burgess

Matthias Knab **Which seems to me a mistake, considering your outperformance.**

Mark Burgess: Indeed. We seem to have a lot more success with high net worth individuals and fund of funds, whose primary focus is on performance. These investor groups focus on performance net of all fees. In general, they are more than happy to pay performance fees, because it means their manager is performing well and they are getting a good return on their investment.

Mark Burgess

George Colman: **Mark correctly identified scale and ticket size as being very important, but I remain quite optimistic. First, I don't think there is much downside for local managers, given the very small penetration that the domestic alternative industry has at present, against some very credible performance. Secondly, it may be that we will wake up and find that the events of the last four years were just a bad dream and that we have returned to smoothly trending, rising markets - but I doubt it . Elevated volatility is going to be around for a while, and in the same way the industry is forced to look at fee-adjusted returns, I believe that more consideration will be given to volatility-adjusted returns and returns per unit of risk. That speaks to the strengths alternatives have, at a time when institutional investors in Australia have under-allocated to that category relative to international benchmarks.**

Thirdly, currency has been a big drag on performance for those institutional domestic investors that have allocated offshore if unhedged.

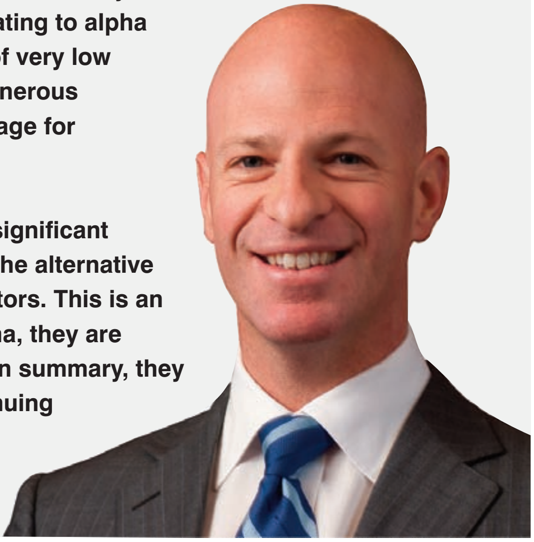
George Colman

Finally, in a post Madoff world, where we are all much more concerned about transparency and operational due diligence, the simple fact is that the further you are away, the harder and more expensive these functions become. Our firm is certainly committed to best practice in all our operational, compliance, and reporting systems.

Jarrod Brown Bennelong operates long-only large cap, long-only small cap, long/short-absolute return, long/short market neutral, and property funds. Therefore, we do get views of price trends that influence a range of strategies.

In my mind, there is no doubt that smart money understands that exceptional talent is in short supply, and they are prepared to pay for it. Despite downward pressure on price from some quarters, astute investors are less focused on price and more on reward – and they continue to be prepared to reward great performance.

As Mark said, there has been a massive push from large institutional investors in Australia to drive down long-only prices. In many cases though, it comes down to a separation of alpha and beta. The investor seeking to pay an absolute minimum may in fact be seeking beta or may be applying strategies internally to generate beta themselves. In turn, they complement this approach by allocating to alpha generators, where the pricing varies accordingly. We have seen evidence of very low pricing at say 10 to 20 basis points, but this is normally accompanied by generous performance fee structures. I think 40 basis points is probably still the average for Australian equity long-only mandates.



Parallel to this trend of negotiating the long-only fees down, we also see a significant trend in more human resources being allocated to internal research within the alternative bucket by asset consultants and within the investment teams of large investors. This is an important indicator for our industry. They know they need to search for alpha, they are increasing their focus on alternatives, and they accept the price is higher. In summary, they will search for capacity, talent and an investment manager's ability to continuing adding value.

Jarrod Brown

Mark Wightman When the domestic institutional investors are writing more sizable tickets to the big institutional offshore hedge funds, do they still try to negotiate down the typical offshore fees of 2 and 20?

Mark Burgess My understanding is that they are prepared to pay the fees to those very large international funds. I guess they are paying that partly for the name, the reputation, and the track records of those funds. I also think they feel more comfortable investing with well-known brand names. If they supported a small local manager, there might be a few more questions asked of them if that manager were to underperform.

Chris Gosselin

It really comes down to career risk. A long time ago there used to be a saying you never got fired for buying IBM. Similarly, institutional investors and possibly their consultants are unlikely to get fired as long as they run with the herd. In other words if you are invested with a large manager who has $10 or 20 billion in FUM, you will be in good company.

That might not be the case if you invest in a smaller or emerging manager with a limited track record, irrespective of the pedigree of the investment team. You may get out-performance, but if performance is poor you may be looking for a new job.

Chris Gosselin: I do agree with the point regarding the limited capacity of many Australian hedge funds restricting the ability of large investors to make allocations to the smaller funds.

However the fee debate doesn't make sense unless the manager's net performance is taken into account, and fees are judged as part of the value add and risk equation. Unfortunately, new regulations are coming into force as of July this year whereby superannuation funds will be ranked by APRA, the regulator, based on their fee structure. So, rather than looking at an after-fee performance, the funds will be ranked based on operating fees and investment management fees. This will further reinforce the focus on looking at fees in isolation rather than on a risk and performance adjusted basis.

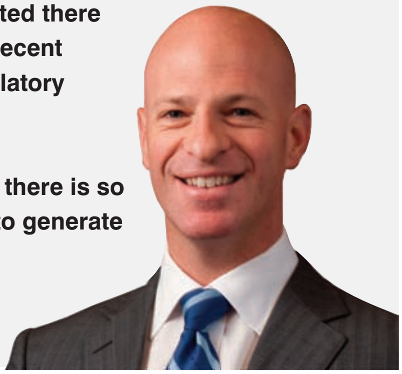
Chris Gosselin

Matthias Knab

Isn't the industry lobbying against such a limited focus on fees alone and ignoring any net of fee performance aspects?

Jarrod Brown: We had a recent example with a new client who is a member of a Board overseeing the investment committee of a pension fund. This institution had a significant focus on driving down fees for one strategy, but they had also allocated a risk budget to other strategies where they accepted there would be a much higher fee. Using the dual approach, they were trying to generate a decent return within their own price constraints, which is being at least partially driven by regulatory change and competition.

In general, they are limited in their allocation options, because in this new environment there is so much pressure to bring down fees, but they still set aside a portfolio, or a risk budget, to generate the returns they know they can only get from true alpha generating managers.



Jarrod Brown

Overall, the superannuation funds have to balance out those two competing pressures – to be ranked by cost for their clients while still generating healthy returns. That is a very recent example, and our client found they needed to overhaul the whole portfolio to deliver within the new regulatory and competitive environment.

Peter Los

Our fund, the Eye Investment Fund, hasn't really done much marketing at all, and definitely not towards institutional type of money, for a variety of reasons. Apart from the fee issue, often they would be looking for very low volatility funds, and we are not really in that category, but primarily the issue that would be coming up will be fees.

We just formulated our policy and position regarding fees, and we decided we will not make any exceptions, because we think a fund gets into very murky water if you start giving somebody different type of fees. Investors usually ask if anyone has a better fee structure than someone else in the fund. The moment you have to answer yes to that will put you in a difficult spot as a manager. Therefore, we decided to stay very consistent and uniform with everyone, all are treated the same and there are no exceptions

Peter Los

Matthias Knab **As Australia-based hedge fund managers, where is your growth coming from? What is your biggest investor base and why do you think they are they invested with you?**

Peter Los: I believe when someone walks into a Hermes shop, they would not be asking for a discount, but rather they are looking for a certain product when walking into that shop. Similarly, when I talk to new potential investors, they do have an idea what your product is about and clearly have an interest in it, for their own reasons. They may be interested to have an exposure to a particular area, it could be long/short Australian equities or commodities, or for your return profile for diversification purposes.

Peter Los

Our growth has primarily been generated from annual compounded returns as opposed to inflows from marketing endeavors.

We find that the people we talk to are looking at net performance after fees. People want to invest in this type of product because of the compounded annual performance. Depending on the type of investor, volatility and other variables will then play a role as well.

Chris Gosselin: If we step back and look at the investor base in Australia, the one that attracts attention offshore is the superannuation industry, which is a compulsory pension fund system. Under the regulations employers have to pay a minimum of 9% of every employee's salary to a registered fund. That is being increased to 12% over the next few years.

The total superannuation pool now stands at around A$ 1.4 trillion and is of course rising. However, it is important to understand that 36% of the entire A$1.4 trillion superannuation pool is now managed by what we call self-managed superannuation funds or SMSFs.

These are essentially individuals who want and are able to manage and be responsible for their own financial retirement. They have become the largest single segment of the superannuation industry and logically have larger balances in their retirement accounts.

This sector consists of around 450,000 separate funds and they are hard to identify. However, the industry and institutional funds are easier to target.

Chris Gosselin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Chris Gosselin: **While these self-directed investors are the most difficult to identify they are certainly one of the most attractive parts of the pension system. They may not write $50 million or $100 million tickets, but being high net worth individuals they appreciate that it is worth seeking and paying for performance as they do in most other purchasing decisions they make. So for absolute return funds this is the most lucrative area of the market, but equally the most difficult one to market to.**

Henk Huitema I believe one of the reasons for the growth of self-managed super funds is due to investors not being satisfied with the performances of the funds. To a certain extent this is related to the fee structure involved and the investors' desire to act as fund managers to control their flow of investments and returns. If the new regulation is now so focused on transparency, in particular with regards to fee structure, this is a clear indication as to why investors are creating their own self-managed superfunds and we witness a spike in its growth.

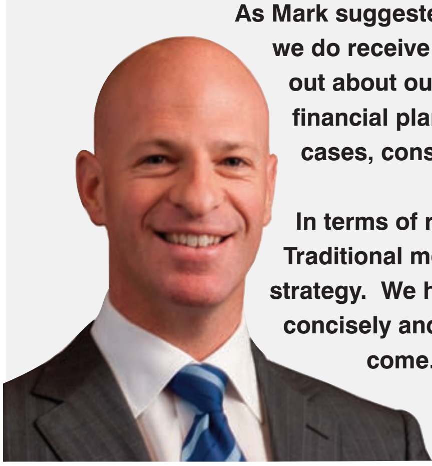
Mark Burgess We have quite a diverse investor base made up of family offices, fund-of-funds, charitable organizations, high net worth individuals, financial planners, dealer groups and, increasingly, self-managed super funds.

Until recently, our fund was only accessible to wholesale investors with a minimum of half-a-million dollars. We have just released a PDS, or Product Disclosure Statement, which now makes our fund accessible to retail investors with a minimum investment of A$20,000. We see that market as a real growth avenue and there is a lot of interest in the absolute return space. A lot of smaller investors are quite disillusioned with the returns they have achieved from investing in Australian equities and long-only Australian equity managers over the last five years, and are looking for strategies that can give them a positive return in any market environment.

Mark Burgess

Jarrod Brown: **We are multi-channel distributors. While we do not distribute offshore, we still have a couple of offshore investors. We otherwise divide our channels by retail, mezzanine, institutional, and high net worth, the latter being critical for distribution of our alternative strategies.**

As Mark suggested, we are very active in the retail channel. Most retail business is intermediated but we do receive a number of new self-managed super investments every day. I wonder how they find out about our funds; in many cases they may indeed, unbeknownst to us, be advised by a financial planner. Typically, this type of investor has more than A$250,000 to invest and, in many cases, considerably more.



In terms of reach, we focus on building our brand and making sure our brand is protected. Traditional media, web, e-communications and increasingly social media are the pillars of our strategy. We have found that if we deliver well across these channels, communicating clearly, concisely and effectively - together with simply delivering on our promises - the investors will come.

Jarrod Brown

So, our recipe for growth has been very simple: delivering returns, multi-channel distribution, brand building and sustainability - these are essential to ensuring you will be around for a long time.

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Australian Fund Monitors provides **data**, **research**, **analysis, investment opportunities, due diligence** and **consultancy** on the absolute return and hedge fund industry in Australia. With over 280 funds either managed from or domiciled in Australia, we have the most extensive database available, covering strategy, performance and risk analysis.

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Chris Gosselin, CEO
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chris.gosselin@fundmonitors.com

Chris Gosselin: **Coming back to the fee discussion for a moment, some new ideas are emerging around fee structures. For instance, we have seen a performance and fee hurdle based on the fund's Sharpe Ratio rather than on a specific return. While I see issues with a blanket argument to lower fees, I would welcome fee structures to ensure there is an alignment of interests.**

Obviously, the performance of local Australian hedge funds varies dramatically, but the average performance across the all funds has been good, with some being excellent. The better Australian hedge funds outperformed offshore funds, outperformed Asian funds and have outperformed the local equity market since 2007. They have been more risk averse, and were positive in negative markets.

Chris Gosselin

We mentioned capacity and size as the main challenges - it is very difficult to get an offshore investor to come here to invest in managers that do not have sufficient size or capacity - they do not want to be overly concentrated as investors in their funds.

Chris Gosselin: **The other issue for offshore investors is the travel and time zones. While this is a challenge, I believe is decreasing as Asian investors are making distance less of an issue. Asia is eight to ten hours away, so that's much easier compared to someone who is coming from Switzerland or the U.S. having to travel for up to twenty four hours.**

Focusing on where your investors are is an important factor for a hedge fund manager in Australia. Local managers have a choice of targeting retail, high net-worth or local or offshore institutional investors, with a number of funds having opened offices in Hong Kong or Singapore over the last 12 months. The main motive is to be to closer to the investors from North America and Europe travelling to Asia.

Chris Gosselin

Peter Los I think also for offshore investors you need to have an offshore structure as for a variety of reasons they would probably not consider investing in an Australian structure. Unfortunately, setting up these offshore structures can be quite expensive.

Mark Burgess I agree, it is essential to have an offshore structure in place because there are tax disincentives for international investors to come into an Australian vehicle.

As managers of Australian assets, our funds here are priced in Australian dollars. While the Aussie dollar may have been in an upward trend, offshore investors don't want to take a view on currencies and usually ask for vehicles which are priced in US dollars. That adds a lot of complexity with hedging and, unfortunately, the cost of hedging is high because of the differential in interest rates that has prevailed for quite some time now between the US and Australia. This means there is a drag on the performance of an offshore fund which is investing in Aussie dollar assets but being priced in US dollars because of that hedging cost.

Mark Burgess

Chris Gosselin One of the issues also relates to the withholding tax for foreign investors in Australia. This was reduced from 30% to 7.5% in an effort to encourage offshore investors, but unfortunately has just been raised again in the recent budget to 15%. I agree with Peter that local managers need an offshore structure to have any hope of attracting offshore investors and they also need to understand what those investors are looking for, and market accordingly.

Peter Los I think the other point is that with the initial marketing of a fund it is like being a Managing Director of a publicly traded company. You probably spend, if you really want to do proper marketing, 30% of your time doing marketing. Well, if you suddenly have an offshore fund then you have to go spend 30% of your time to offshore investors it becomes quite, I guess, not only time consuming but also a financially expensive exercise if your fund is of limited size. Fortunately, for the Eye Investment Fund the majority of our clients have been with us for a long time which often includes the years of my previous fund I co-founded and co-managed. This has alleviated the time required to conduct substantial marketing efforts.

I think the ideal scenario for an Australian fund manager is if you have a big domestic fund and that sort of carries the burden to pursue something internationally.

Mark Wightman: Globally, the need for an institutional infrastructure and regulatory compliance have been two of the biggest headaches for a lot of hedge funds at the moment. Many of the institutional investors want a lot more in terms of risk reporting and transparency. As soon as you have U.S. investors, you have to start thinking about FATCA, and beyond that you have the new AIFM rules, as well as local regional regulation from ASIC, MAS or SFC.

If you are looking to raise offshore money, do you think the required institutional infrastructure exists in Australia today? From our perspective, we are noticing some of the smaller funds shutting down as the barriers to entry are getting much higher.

Mark Wightman

Jarrod Brown: I guess I have a strong bias here because our business has been built to basically address this issue. Our view was the market believed institutions were too big and asset consultants had decided not to allocate to them any more money. The alternatives were a few boutiques with backing, a few 'multi boutiques' in the middle (e.g. Challenger, Perennial, Pengana etc) and then a long line of small asset managers with, typically, a Bloomberg screen and a desk.

In the main, the investors in each channel have all spoken firmly and made it abundantly clear that they need to see institutional strength in the infrastructure, and significant financial capability. It is not just about the boutique getting to break-even before they allocate, they need to see a long-term investment in the business and it is a very significant investment that's required. This has played to our value proposition.

Jarrod Brown

To your comment about regulation, This is the biggest issue at the moment for Australian investor and adviser confidence. Until the regulatory landscape is clear, absolutely clear, confidence will not return. It is not just about the investment market. Confidence is being heavily influenced by regulatory distraction and until that goes away advisers, who are trying to keep investors content and confident, will continue to struggle.

Peter Los: I think regulatory distraction not only concern fund managers in Australia but literally around the globe the industry is facing the same or similar issues, whether you talk with Asian, Swiss or U.S. based managers – infrastructure, barriers to entry and regulations will remain top challenges going forward.

Let me give you some anecdotal example. I co-founded and co-managed a global energy hedge fund for eight years. When I launched my current fund eight years after the first one, the set-up cost was already more than ten times as much as the previous fund. Since then costs have continued to go up a lot. For each country you try to market your offshore product to you have to deal with an additional layer of legal cost and regulatory challenges that are only going to increase as opposed to decrease.

Matthias Knab **Have you looked at UCITS? As you know, UCITS funds can be marketed in the 27 EU member states, and also many other jurisdictions in Asia, Latin America and even in the Gulf recognize them as the Gold standard.**

Peter Los That is right, clearly every other jurisdiction is trying to reinvent or copy them. I heard Chris talking about Australian regulators trying to set up a vehicle that will be marketable and suitable for anyone around the globe to invest in an attempt to make Australia a global financial hub.

After UCITS were created in Europe, a wave of so-called consultants and asset advisors together with the media started touting them as the latest new thing. But the point really is that every jurisdiction is trying to come up with newer regulatory rules that encourage a particular ***domestic*** vehicle, whether it is a unit trust in Australia or a UCIT in Europe. This trend just emphasizes the complexity of the regulatory framework that we are heading towards.

Mark Wightman: Over the last couple of years there has been talk of establishing a regional fund passport scheme (ARFP – Asia region funds passport) between Singapore, Australia, Hong Kong and potentially other Asia Pacific countries, where they were aiming to harmonize the regulations, making it easier for money and investments to flow between the different countries. The goal is to mimic what has been done in Europe with the UCITS wrapper.

Mark Wightman

George Colman We had a very close look at UCITS. From our perspective as a money manager, we believe the less structural complication, the better. Making money in the market is hard enough. Complying with the UCITS regime requires an additional level of complexity. You cannot simply go out and short a stock in a UCITS but need to find a mechanism to do that under their financial derivative rules.

This meant that we could not readily replicate the operating procedures that we used for our domestic fund. Our judgment was that the wider potential investor reach through UCITS was, at this stage of our business development, somewhat outweighed by the operational complexities.

Chris Gosselin As we discussed, all these factors certainly make it challenging to establish a new fund and I think that is where, platforms such as Bennelong come into play. They take a minority position in the manager and provide all the regulatory requirement services, operational support and distribution. This is a good model. It does not always work, because some managers want to run their own race, but it certainly works as institutional investors want to reduce business risk.

Mark Burgess My partner and I were attracted to the incubator model precisely because of the enormous start-up costs and complexity. There is an enormous barrier to entry for a new hedge fund business. But more than that, first and foremost we are investment practitioners - stock pickers. We want to focus on managing the fund and achieving strong returns for our investors and ourselves (as some of the largest investors in the fund), and not having to worry about all of the peripheral, but necessary, business issues.

Bennelong Funds Management has all the infrastructure in place, together with the experience of having done it already with other boutique managers. That has given us a lot of confidence and allows us to largely focus on the day-to-day management of the fund rather than worrying about all of the other issues.

Matthias Knab **What other innovations and trends do you see?**

Chris Gosselin We also touched briefly – for me the trend for Australian funds to set an Asian office in Hong Kong or Singapore. Five or six funds in the last twelve months, particularly funds with an Asian strategy, have added an Asian office. I think that is good not only for them but also for all Australian managers. If an investor meets an Australian fund manager in Asia and then visits Australia for their due diligence they will see another eight to ten funds while they are here.

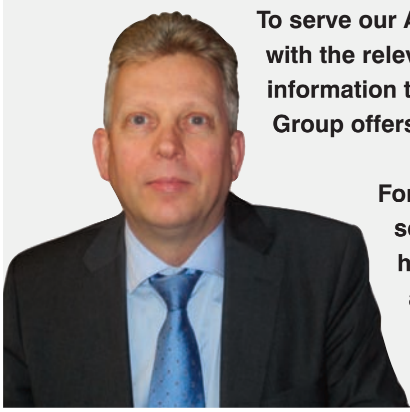
We are also seeing Australian managers moving to Europe, with one fund Commodity Strategies moved their operations to Switzerland. There is a bias in Australia to equity investing, so they understood and acted on the need to be close to the investor base.

It would be beneficial if the Australian government established a platform for the Australian financial industry in Asia, making it easier for investors or businesses interested in Australia to establish the initial contacts.

Matthias Knab **One theme that came up at this Roundtable is that Australia is interfacing more with Asia. Henk, what are your observations here from an derivatives exchange's point of view?**

Henk Huitema: While the Australian hedge fund community is very focused on long/short equities, there is actually a solid volume from investors trading in our derivatives market mainly in fixed income and equity index futures.

Our clients – CTAs or hedge funds trading our markets – do require a certain level of liquidity, otherwise they are unable to have much exposure in these products.



To serve our Asia-based clients we are committed to providing the investors with the relevant and necessary knowledge, training and education, as well as sharing of beneficial information to ensure they are fully aware of the services Eurex Group and Deutsche Boerse Group offers in Asia.

For this purpose Eurex Clearing has recently introduced the Client Asset Protection scheme. This enables our clients to have a segregated sub-account on the clearing house level. In case of a default of a clearing member the client positions and collateral are fully protected.

Henk Huitema

Jarrod Brown: In Australia, we have a number of platforms commonly known as wrap accounts or masterfunds. They are essentially investment supermarkets. One quite prominent platform based here in Melbourne currently has 40% in cash. That illustration is probably indicative of all retail platforms in our market and represent a huge overweight to cash across a very, very large FUM base. Most of this will be in term deposits on the platform of which a financial planner and the platform are taking a fee, which means the investor may be getting a rate of 3% on their money. At some point, that cash may look extremely unattractive, and hopefully that will lead to some transition back to equities.

The second comment I would make is that about two-thirds of the Australian market cap is concentrated in the top 20 stocks. Potentially, we have a liquidity issue and Australians cannot continue to place the same allocation to Australian equities going forward. There has to be a move to other assets classes, including global.

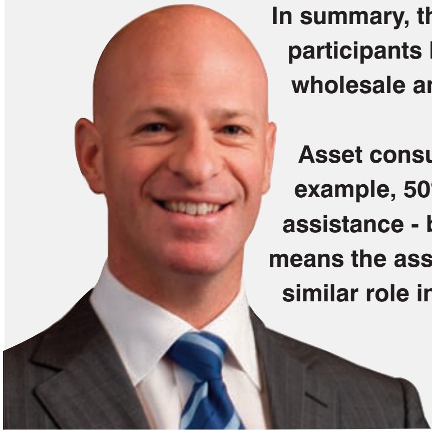
Given this context, I do believe long/short strategies add to the opportunity set. Long/short hedge funds make great sense as we deal with capacity in our market.

Jarrod Brown

Mark Wightman

We know Australia is the fourth biggest asset management center in the world, we mentioned there is a capacity issue and a lot of money sitting here in cash. Now, how does the end investor here get educated whether it is about going into asset classes beyond Australian equities, alternative strategies like Asian long/short, etc? We mentioned several times asset consultants, which is a term I hear a lot in Australia, but not so much in other international markets. What is the role of the consultants here in Australia in terms of driving investor decisions?

Jarrod Brown: There is no doubt the asset consultant community hold enormous and concentrated power. I could not say on what percentage of funds consultants have a direct influence, but it would be the absolute majority, if not close to all. Possibly, the self-managed super funds, which is the fastest growing segment in the market, could redefine the consultants' role.



In summary, the value chain within asset management here is quite complex. A whole range of participants have a responsibility or influence where an investor eventually allocates, both in the wholesale and retail world.

Asset consultants need to advise trustees. Remember that in an industry pension fund, for example, 50% of the trustees are from the membership base and thus need professional assistance - but ultimately, they are responsible for the investment decisions of that fund. This means the asset consultant will continue to have a huge part to play. Research houses play a similar role in the retail space, providing guidance for some 16,000 financial planners.

Jarrod Brown

Matthias Knab

Let us talk about innovation and new products.

Henk Huitema

For this purpose I like to mention 3 initiatives within Eurex Group and its entities.

As already mentioned Eurex Clearing has introduced the Client Asset Protection scheme with which the investors can have a segregated sub account on the clearing house level.

A further initiative at our clearing house is the introduction of EurexOTC Clear services beginning with the clearing of Interest Rate Swaps and at a later stage followed by total return swaps and variance swaps.

Finally, Eurex Clearing will introduce a new portfolio based margining system called Eurex Clearing Prisma. With this system we aim to offer a single portfolio based margining approach for exchange traded and OTC products. Currently investors have separate margins and the possibility of a single based portfolio margining can offer substantial savings for your collateral.

Henk Huitema

At Eurex Exchange we are always looking at new asset classes and alliances. One thing to mention here is our cooperation with the Korean Exchange. Through the Eurex/KRX Link we now offer trading of the KOSPI 200 Index option, which is the largest traded derivatives contract in the world, on the Eurex platform. The KOSPI 200 Option is successfully trading at Eurex Exchange with an average daily volume of around 150,000 contracts.

Mark Wightman

We see plenty going on in the world of risk, where we are addressing an ever increasing demand for more detailed or specific risk reports. This is largely being driven by the investor base changing from historically fund of funds to a more demanding, institutional client base. Managed accounts are increasingly popular, and of course here the investor has full transparency. Investors are asking for a lot more information, e.g. concentration and exposures by sector, currency, country, etc. VaR or shocks based on re-running historical scenarios. Our clients ask us to provide these tools and analysis, because it is being requested by their institutional investors. We have even seen cases where specific reporting is part of the conditions for the investment.

There is a development in the U.S. where Obama has just approved the JOBS Act, which is going to allow hedge funds to market to a larger audience than before. Hedge funds can now market themselves to accredited investors with a net worth of $1 million and upward. This vastly expands the potential client base for them. Australia is very different because there has always been a strong retail investor base feeding money into funds. In the UK, and many other countries, there has always been fear around letting retail investors buy into hedge funds. What is the extent of the guidelines or rules in place here and how are the investors informed and protected?

Jarrod Brown

Retail disclosure is very different from wholesale disclosure. In Australia, we are also going through significant regulatory change. On June 22nd we will move to what is called a short form product disclosure statement, which is designed to be a lot easier for the retail investor to absorb. I don't think that will necessarily be the outcome, but you are required to present a whole range of information to retail investors that you aren't bound to do for wholesale investors.

Disclosure is probably the key principle or at the heart of what is required to market to retail investors. You have to be clear and concise so the investor is adequately informed to make investment decisions. The same clarity is required for wholesale or sophisticated investors, but they are assumed to have a much deeper knowledge and thus the disclosure, while true and accurate, is usually considerably more succinct.

Mark Burgess: Also wholesale investors have an increased emphasis on risk management and analysis. Our approach is to be as open and transparent as possible, not only with our existing investors but also potential investors. We provide them with all relevant data that pertains to the portfolio, so they can do as extensive an analysis as they want to. We have a six-year track record, with very detailed data going back every month since inception, which includes portfolios and breaking down the attribution to every single basis point on each position.

So basically, we provide investors anything they want for their due diligence. Rather than us trying to run VARs or a particular risk model, each potential investor is going to use their own tools. We simply provide them with the data and then it is up to them to analyze it and determine whether or not they want to invest.

Mark Burgess

Chris Gosselin: Fundmonitors.com covers 270 or 280 funds on a monthly basis. We get monthly performance reports from the majority of those. The notion that hedge funds aren't transparent does not apply in Australia. Those performance reports range from one or two pages, through to 10 or 12 pages, including details on individual holdings positions. The transparency is excellent, as is the liquidity terms the local funds here offer.

Over 90% of Australian hedge funds offer monthly liquidity or better. Some may apply a soft lockup in the first 12 months of investment, but generally funds are offered without lockups. When international hedge fund investors come to look at Australian funds, they are genuinely surprised at terms that are offered. Some local funds offer daily liquidity.

Of course, investors will then have to double check if the fund's portfolio is appropriate for daily liquidity, but the main point is that there are generally no lockups or comparable conditions for investors, which speaks a lot for the industry. The problem in 2008 was that Australian hedge funds had no liquidity limits and therefore investors took advantage of this.

Mark Burgess That is correct, in 2008 Australian managers were a source of liquidity for fund of funds around the world and, generally speaking, their performance had also been pretty good. Australian managers may have been some of their best performing funds through 2008, so a number of fund of funds and other investors redeemed and could actually book a profit.

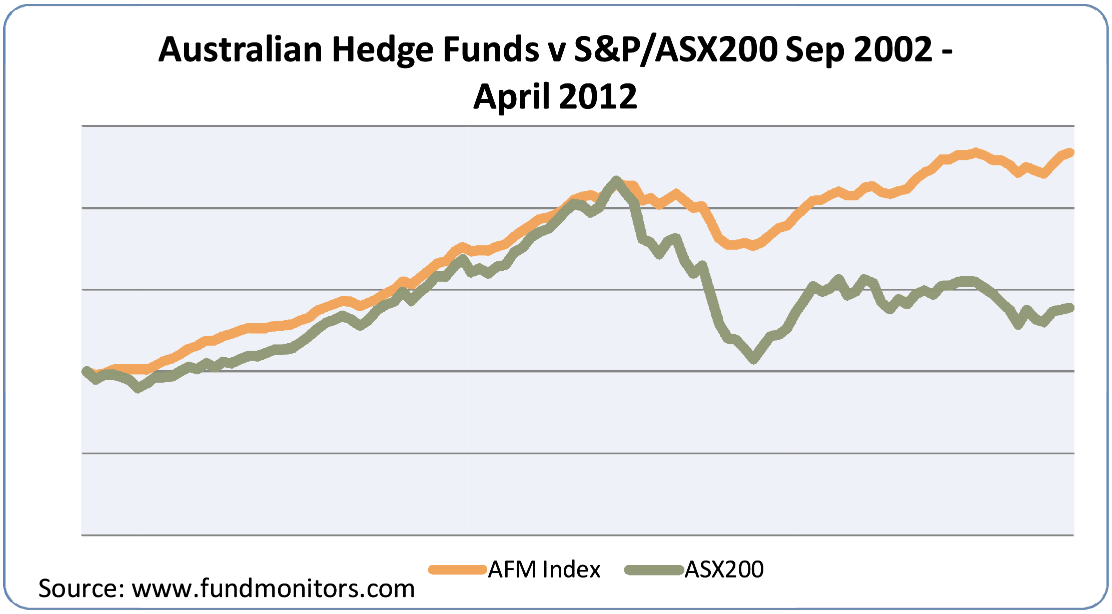
Chris Gosselin Correct, and as a number of Australian funds had a positive year in 2008, it must have been incredibly frustrating receiving those redemptions.

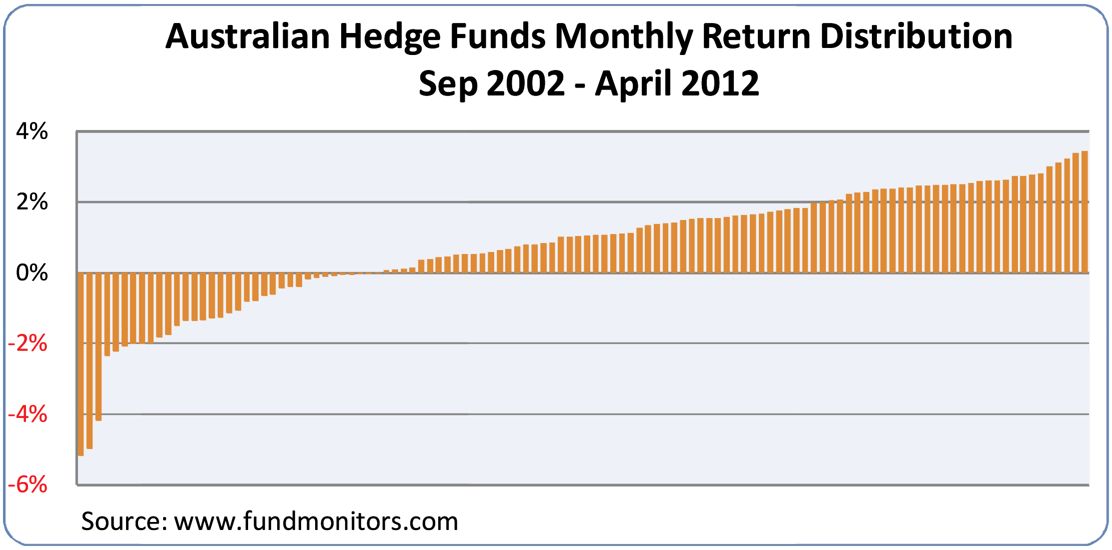
Matthias Knab **The performance of Australian hedge fund managers in aggregate is very good. You mentioned they outperformed their offshore peers as well as their local benchmarks. What is the secret behind this performance?**

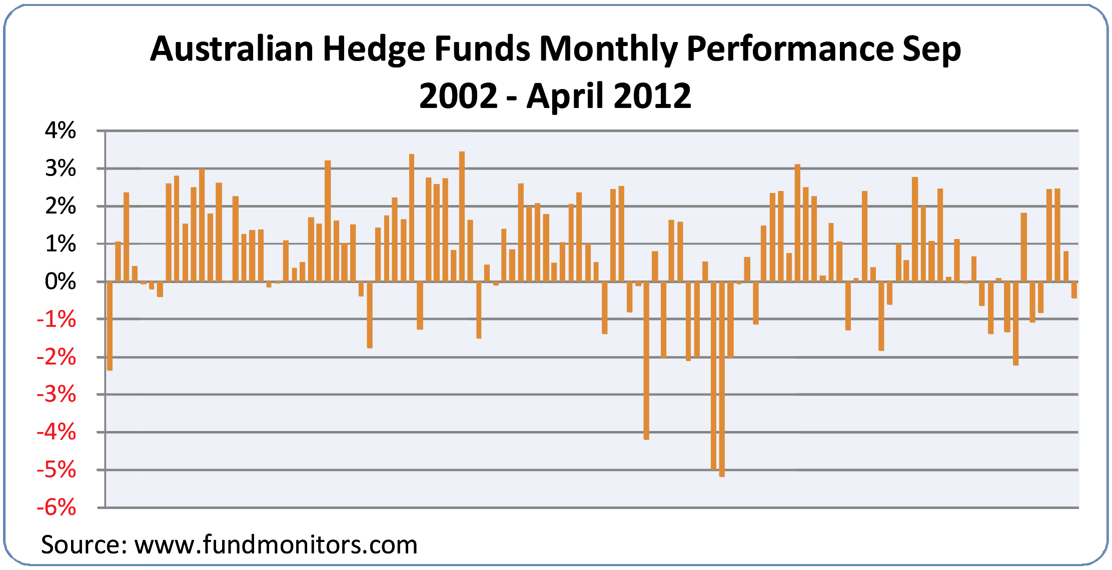
Chris Gosselin In broad terms, there is a pool of excellent talent in Australia. As a research house we find that managers have good experience and know their market well. A portfolio manager who might have been overseas for five or ten years to get additional experience or to experience the bright lights of New York or London decide to return to Australia for family or lifestyle reasons. They bring with them significant experience, they know the global markets very well.

The size of the Australian market plays to their strengths, as they deal with a relatively small and concentrated market. It is one of the facts in life that if you just do one thing – whether researching and investing into the ASX 200, you get to know those funds or stocks very well and you hopefully become very good at it.

Obviously Australian hedge funds aren't a homogenous group, you find a wide divergence of performance and styles within them. Some funds will have a relatively low performance but a very low volatility, while you can find the much more volatile funds too. Investors find ample variety and ranges within the overall Australian hedge fund industry.







George Colman

Risk management is, in our minds, a function of five things. In no particular order, these are: net exposure, leverage, position concentration, loss limitation, and, of course, liquidity.

We tend to have low but variable net exposure, which has averaged 15% since inception. We do not use leverage in our Fund's capital structure and our position concentration tends to be low. We invest only at the very liquid end of the market. These things all talk to our low volatility, at 3.75% p.a. Risk management is really an obsessive and dynamic process for us, which is rooted in our absolute aversion to losing money. That means we spend an awful lot of time thinking about how we could lose before putting a trade on. We find that if we focus, as we do, to a painful degree on that, the profits take care of themselves.

Mark Burgess

Similar to George, we are very focused on risk and are as focused on avoiding losing money as we are on making money. It comes down to the risk parameters around which you structure your funds. We have pretty conservative gross and net exposure limits and do not use financial leverage, which was clearly the area in 2008 where most of the problems occurred. We are using stop losses in a dynamic sense at the individual stock level and we also employ derivatives to hedge our physical exposures when necessary.