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Opalesque Round Table Series '12

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Editor's Note

Dear Reader,

Hedge fund managers and investors participating at the Opalesque 2012 Connecticut Roundtable say the demand for **"non-correlation", "high liquidity" and "tail risk protection"** remains exceptionally high.

Family offices find renewed interest in hedge fund managers

The vast majority of **family offices expects 2013 to be an exceptionally challenging year**. Single family offices are **keeping vast amounts of capital on the sidelines**, both to be ready for future opportunities but also because they are looking for a safe haven..

While family offices are open to investing in large, medium and small managers, there is a **skew towards smaller managers**. Many family investors are also searching **for opportunities in Asia and Latin America** with nimble and experienced domestic managers based on the ground.

Another recent trend is that a number of **family offices are now being created by people who have been successful in hedge funds**. Apart from George Soros who has converted his hedge fund to a very large single family office, dozens if not hundreds of lesser known but successful hedge fund managers, traders, private equity managers, venture capitalists and Wall Street tycoons, have or are about to set up family offices - not just in Connecticut, New York or San Francisco but around the world. As extremely successful,professional investors, these people are **creating a different dynamic within the family office and the broader wealth management field.**

The Opalesque 2012 Connecticut Roundtable took place in Greenwich CT on September 18th - sponsored by Deutsche Bank, Taussig Capital and Eurex – and featured the following speakers:

1. **Angelo Robles,** Founder and Chief Executive Officer, Family Office Association
2. **Byron Baldwin,** Senior Vice President, Eurex
3. **David Storrs,** President, CEO and Co-Founder, Alternative Investment Group
4. **E. Stewart Johnson,** Portfolio Manager, Brookville Fund Managers
5. **Dr. Hanming Rao,** Chief Investment Officer, Global Sigma Group
6. **Joe Taussig,** Founder, Taussig Capital
7. **John Wallace,** Managing Director and Global Co-Head of Alternative Fund Services, Deutsche Bank
8. **Paul Lucek,** Senior Portfolio Manager, SSARIS
9. **Steve Simmons,** Managing Director, Southport Harbor Associates

The group discussed:

- **The "nine magic words": Basel III, Solvency II, Dodd-Frank, FATCA, JOBS Act – hate or love them?**
- **U.S. alternative mutual funds: a UCITS-like boom ahead?**
- **How FoFs have evolved from a product to a solution provider**
- **Strategies to cope with uncertainty: Dealing with macro and technical factors, focusing on short term, return stream diversification through convergent / divergent investing**
- **Where are the most hedge fund start-ups formed?**
- **How hedge funds can get permanent capital in less than 90 days**
- **Up to $2.5 trillion collateral required for mandatory OTC clearing - how will hedge funds and other asset managers deal with this challenge?**
- **Why and how do former hedge fund managers turn their operations into a family office business?**

Enjoy the read!

Matthias Knab
knab@opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Back: Angelo Robles, David Storrs, Dr. Hanming Rao, Joe Taussig, Matthias Knab

Front: Paul Lucek, John Wallace, Byron Baldwin, Stewart Johnson, Steve Simmons

Deutsche Bank

Introduction

Steve Simmons
Southport Harbor Associates

My name is Steve Simmons, I am the Global head of Sales for Southport Harbor Associates. We are unique in the alternatives industry, as we are a hedge fund consultant and marketer, but unlike traditional third party marketers, we don't have a "slate" of retained managers that we represent. Rather, we are solely driven by investor mandates, which allows us to remain fund agnostic while maintaining alignment with the end investor. Our model is that of an outsourced free resource for institutional investors with the only fees paid once an allocation is made, and by the underlying fund.

Angelo Robles
Family Office Association

Angelo Robles Founder at Family Office Association. We are a global membership organization dedicated to single family offices based here in Greenwich, Connecticut. We have an insight from our families who often actively allocate very large amounts to hedge funds and alternatives. You could say that we are a kind of observer of a significant number or hundreds of single family offices, to be more precise.

David Storrs
Alternative Investment Group

I'm David Storrs, Co-Founder and President of Alternative Investment Group. We manage about $1.6 billion from our Southport, Connecticut base, with research offices in New York and London. We invest primarily in equity funds, and also opportunistically in credit and other uncorrelated strategies, with a focus on smaller, lesser known managers. Our client base is about two-thirds institutional and one-third high net worth families. I believe we have massive opportunities in the long-short investment space today.

In some of my previous roles, I was the first Endowment Director at Yale University, then President of The Commonfund, which is a multi-billion dollar consortium of educational and other non-profit organizations.

Byron Baldwin
Eurex Exchange

I am Byron Baldwin and work for Eurex Exchange, the global derivatives exchange, and based in the New York office. I am part of the buy-side team where we work with the hedge fund community in getting feedback as to future Eurex products and the development of existing products – for us at Eurex getting feedback from the buy-side with regards to the development of our products is extremely important. With the Dodd-Frank legislation in the U.S. (and EMIR in Europe) soon to be introducing the mandatory clearing of OTC derivatives, I am currently working with the buy-side with regards to EurexOTC Clear, our OTC clearing offering to make sure that it meets their specific needs.

Paul Lucek
SSARIS Advisors

I am Paul Lucek from SSARIS Advisors. SSARIS stands for State Street Absolute Return Investment Strategies. We are the hedge fund and hedge fund-of-funds investment platform for State Street Global Advisors. I am a Senior Portfolio Manager and the Director of Research. My focus is on our internal trading strategies that include systematic global macro, multi strategy and a series of what we call divergent trading strategies that can be used for tail risk protection and hedging portfolios of traditional assets.

Joe Taussig
Taussig Capital

My name is Joe Taussig of Taussig Capital. Our firm partners with fund managers to create insurance companies and banks, where the fund manager gets to manage all of the investable assets. We have identified 14 large managers who have come into this space and set up reinsurance companies with at least $250 million. Of those 14, our firm was involved with four, but that is probably more than anybody else has done in this field.

Our model offers a number of benefits. The reinsurers are almost certain to outperform the managers' funds. The assets are permanent capital for the manager, and in many cases the reinsurer gathers significant amounts of new AuM that the fund manager would not otherwise see. The model is

Berkshire Hathaway and a recent paper by AQR details the concept. Our best known company is called Greenlight Capital Re, which is publicly traded, so anybody can look it up on EDGAR.

Stewart Johnson
Brookfield Fund Managers

My name is Stewart Johnson, and I am a Portfolio Manager at Brookfield Fund Managers. Brookville was started last June with the help of a firm that had invested with me at a prior fund. Brookville's first fund was just launched in March, which is an equity long-short fund with a focus on financials— however, we are differentiated given a minimal exposure to banks.

I can identify with Joe's reference to the return potential in insurance and reinsurance. Right now our fund is finding mismatches where attractive returns can be added to the portfolio at low market valuations— a double digit return on equity purchased at a discount to book value. In fact, reinsurance is one of our portfolio's largest sub-sectors.

We attribute the valuation mismatch to well-publicized, unfavorable macro trends centered on large commercial banks that have simply pushed valuations down across the financial sector. We use fundamental analysis – adjusted book value, return on equity, and growth – to identify opportunities where valuation improves once macro pressures abate.

John Wallace
Deutsche Bank's Alternative Fund Services group

I am John Wallace, Global Co-Head of Deutsche Bank's Alternative Fund Services group. We provide administration and relating banking services to hedge funds, private equity funds, real estate funds and most other alternative investments. We are a global service provider, with front and back office teams in the US, Ireland, Singapore and Hong Kong. We serve a diverse international client base, spanning the US, Europe and Asia.

Dr. Hanming Rao
Global Sigma Group

My name is Hanming Rao, I am the Founder and CEO of Global Sigma Group. Our company is a registered commodity trading advisor, we offer QEP clients a trading program focused on S&P 500 futures and options. It is a very niche product. Currently we manage about $40 million and aim to grow our AUM steadily.


Eurex Exchange's new trading architecture:
More choices, greater performance, Eurex reliability.
Eurex technology sets global industry standards in speed, innovation and reliability.
This year we will introduce a new trading architecture for Eurex Exchange that will revolutionize how market participants access market opportunities.
Designed in partnership with exchange participants, the new trading architecture aims to enhance performance across the board, including reduced latency and increased throughput.
The architecture also features innovations to the all-important "back end" of capital market technology, including:
• Greater system flexibility, allowing for reduced time-to-market when introducing new financial products and new functionality.
• Improved functionality, including enhanced calendar spreads and user-defined strategies.
• High performance messaging architecture for minimum latency, high-speed communications and reliable database systems.
All this means a more dynamic and responsive platform for trading more than 1,700 products from around the globe – including futures and options on benchmark indexes, leading fixed income derivatives and access to one of the world's most attractive markets.
Technology that delivers a world of opportunity.
Discover more from Eurex Exchange.
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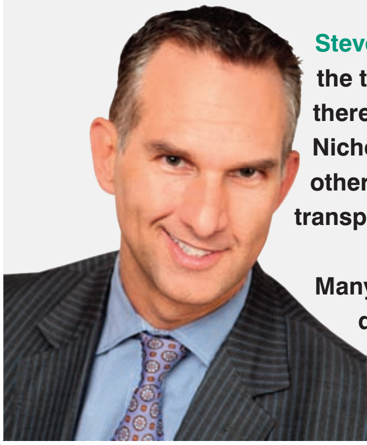
Eurex Exchange is a member of Eurex Group.

Matthias Knab How are you as managers and investors dealing with the current environment? What do you see happening in the markets?



Steve Simmons: We work with numerous university endowments and large family offices, and the two expressions we continually hear are "non-correlated" and "high liquidity". Within that, there is always a strong demand for long-short equity funds that have a demonstrable edge. Niche alternative investment vehicles that have the ability to differentiate themselves from others is very much en vogue, although all the standard check-boxes like liquidity, transparency, operations etc. still have to be ticked.

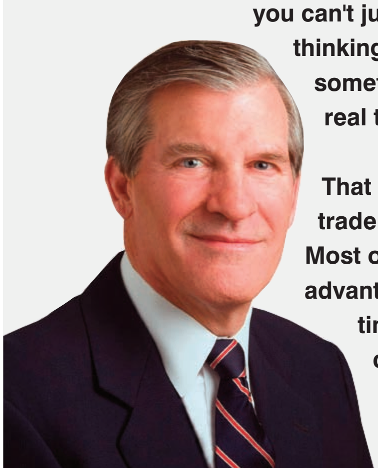
Many hedge funds do not realize that in fact they are not special snowflakes. You must have a discernible edge and the ability to prove why your strategy is replicable and that your alpha isn't in fact just a leveraged market return when you're taking a closer look at the benchmarks. Beta is not the true measure of the fund's capabilities.

Angelo Robles: From interacting with hundreds of families, the vast majorities of them expect very choppy markets, 2013 is expected to be an exceptionally challenging year. Single family offices do have a lot of money on the sidelines, both to be ready for future opportunities but also because they are looking for safety as such.

While the families are open to large, medium and small managers, we do see a trend or a skew among larger, deeply financially sophisticated families around the world towards smaller, uncorrelated managers. Of course, that term is used way too often, but nevertheless the search is on for investments that are uncorrelated to equities.

The families also like to work with smaller managers because that enables them to possibly dictate favorable terms or even seed the fund. I know that many families are actually more interested in the manager itself than his strategy, they are deeply interested in really gifted traders. These are tough times to get alpha, and as the families expect the continuation of challenging, choppy markets, they look for people who can actively trade in and out of the market.

David Storrs: One of the things that has changed dramatically in the hedge fund business is how people actually pick securities and build a portfolio. The way Benjamin Graham wrote about it in 1934 just doesn't cut it anymore. Today, you can't just look at a company's income and balance sheet but need to spend much more time thinking about the macro and technical factors. When Mario Draghi or Ben Bernanke say or do something, you ignore that at your peril. Managers who are not able to make that shift are in real trouble.



That does not mean that you need to become a macro or thematic manager or a short-term trader. In fact, we are concerned that a lot of hedge fund managers are turning into traders. Most of our managers are not in New York City and to be out of the city can actually be quite an advantage. Rather than rushing from company meeting to company meeting, they have more time to think about what's going on in their sector, what's going on in the world, how companies play into that, and where they have an edge and can extract value.

My other observation is that certain sectors display a dramatic dispersion of return.

Technology, healthcare and energy, for example, all have almost 100% dispersion between the top 10% and bottom 10%. While a long-only manager could not care less about that phenomenon, the long/short manager should care a lot about it since the long/short spread is so large – there's more opportunity to arbitrage between winners and losers.

I also agree about investors' preference for smaller managers – they're more nimble and flexible and can invest across the entire investment universe. The large managers, on the other hand, are limited to investing in larger companies and there is potential for a lot of disappointment among their investors, not to mention significant duplication across their holdings. As the saying goes, you won't get punished for buying IBM, but down the road there could be disappointment when clients find they earned a lower return.

Matthias Knab **Stewart, your firm meets two criteria we talked about: being small and focusing on a niche. Can you tell us more about your fund?**

Stewart Johnson: My prior fund was over $100 million, but far from a mega-fund. The small size allowed us rotate in and out of about 30 niche financial stocks depending on the macro climate. Low turnover – about 30% -- and small size make it easier to find investments where macro and fundamentals don't match. For example, when capital was constrained during the financial crisis certain financials actually benefitted; when consumer credit suffered other financials benefitted; now that housing is gaining traction we see a fresh set of niche financials starting to benefit. Good macro or bad macro—small size and focus on a niche creates interesting opportunities.

Today's macro environment, whether it's a general fear caused by Europe's woes or specific questions attributed to revisions in U.S. tax policy, has introduced a heightened level of uncertainty into today's markets. This uncertainty is reflected in conversations with my investment manager peers, it is incorporated in the investment approach adopted by family offices, and it drives the high cash balances on the balance sheets of certain companies.

All these constituents are somehow impacted by uncertainty not only regarding Europe and taxes, but perhaps healthcare costs, and new, unfolding regulations. The challenge is finding the opportunity. Within my space, as regulators roll out higher capital requirements for certain financial companies, the requirements are usually addressed using a combination of retained earnings and a trip to the capital markets.

However, investors legitimately fear capital shortfalls as earnings may falter, or corporate treasurers may find debt markets constrained, or the equity markets unwilling to pay above book value. The investment opportunity arises from the uncertainty associated with a potential capital raise given the broad-based toll it takes on valuation— regardless of specific company fundamentals.

Stewart Johnson: So, I obviously agree with David's comment that you need to focus on macro in addition to fundamentals. I may not like a company based strictly on fundamentals, but when regulators announce new requirements, or a central banker is expected to get on TV and announce a fresh stimulus program, I need to analyze the specific fundamentals in the context of macro.

The challenge is to position the portfolio to benefit from these macro events. For us, we prepare using good ol' fundamental analysis of balance sheets and income statements. Consider earnings growth in the context of today's macro environment: very basic income

statement analysis may highlight opportunities. First, macro uncertainty has increased the cash on balance sheets. As a result, many companies have used cash to buy back stock which increases earnings per share, but not necessarily overall earnings. Second, macro has pushed down interest rates. This pressure pushes down interest rates, we need to be sensitive to earnings derived from investment income. In this macro/fundamental context we may search for companies that have managed to produce earnings growth without share buybacks, and less reliance on investment income yet because of uncertainty still offer significant upside opportunity based on valuation.

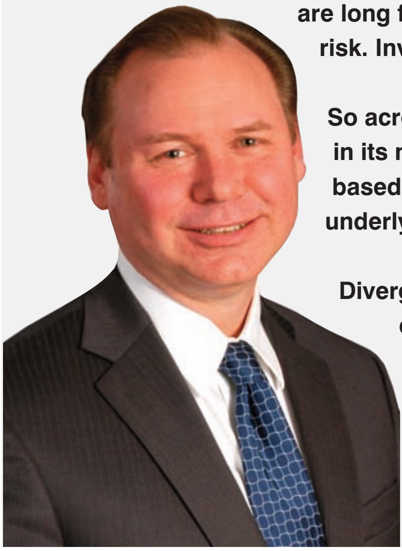
Paul Lucek Stewart is right. There is a lot of opportunity in the marketplace when you have this type of uncertainty. We experienced that starting in 2008 and in each year since then. We believe this uncertainty and opportunity will continue over the next 3-5 years

Paul Lucek: Our investment philosophy at SSARIS is to implement multiple levels of diversification. We believe in asset class diversification, obviously starting with equities and fixed income, and extending that with diversification to commodities and currencies. But we bring diversification into the next level, beyond asset class diversification, into what we call return stream diversification.

We believe asset class diversification is incomplete – it does not go far enough. You cannot just put together a portfolio of equities and fixed income. The current environment is a very difficult one from the perspective of asset class diversification. With fixed income yields so low, you have to allocate more to equities to achieve your target return – but a larger equity allocation entails more risk.

In 2004, we published a paper about our philosophy and approach to convergent / divergent investing. To give you a brief explanation, about 90% of the strategies we discussed today are convergent in their nature. They are fundamental, value-based strategies where a manager picks an intrinsic asset price and if the current market price is trading below that target price, the manager is a buyer. If the current price is trading above the target, the manager is a seller. The expectation is that the market price will "converge" to its intrinsic target price. That is why these strategies are called "convergent".

In most market environments, convergent strategies provide stable, consistent returns, making 1% to 1.5% per month with very high Sharpe ratios. The weakness with convergent strategies is that they are extremely susceptible to crisis events. Over the past decade, these crises are actually occurring much more frequently than statistics would otherwise suggest. When a crisis event hits, convergent strategies exhibit significant tail risk - they perform extremely badly. Valuation and fundamentals get thrown out the window during a crisis – so convergent strategies, which are based on fundamental and value methodologies, do poorly. What most investors do not realize is that traditional portfolio construction - being long equities and fixed income - is very convergent in nature. When you are long equities, you expect to capture a risk premium that is associated with earnings growth. When you are long fixed income, the expected risk premium capture comes from credit risk and duration risk. Investors look for the traditional markets to converge to their targeted risk premiums.



So across all potential investments, 90% of the investment universe out there is convergent in its nature. To truly diversify a portfolio, strategies that do not use fundamental and value based approaches must be included. These strategies are called divergent – and their underlying principle is one of momentum and trend identification.

Divergent strategies can capitalize on the market moves that occur during crisis events. The common statistical properties of the past crisis events have been an increase in volatility. Almost by definition, volatility increases within a crisis event and correlations go up significantly. Things that were not correlated before become correlated. Within individual markets, we have noticed that as an effect of volatility and correlation increasing, serial price correlation or auto correlation increases as well. So strategies that pick up on serial price correlation and auto correlation within the markets – strategies like trend following and momentum-driven strategies – do extremely well when convergent strategies experience their left hand tail risk. By blending a convergent approach to investing, along with a divergent approach, you can minimize tail risk and achieve a more stable normally distributed return.

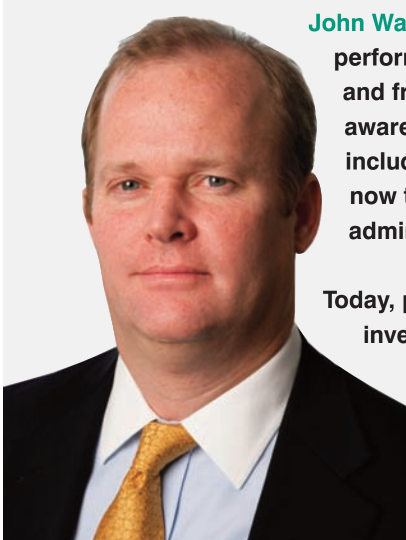
Matthias Knab **Hanming, like Stewart who I asked before, you are one of the smaller and niche managers as well, tell us more about how you create your returns and your strategy?**

Dr. Hanming Rao: I agree with the other speakers that the environment is very challenging, and a lot of macro developments sometimes are dependent on one person like Mario Draghi. If he says he will save the Euro, the market will rally, and if says he won't, then it will crash. This created a lot of headaches for most long term macro players. The good thing for us is that our program isn't long-term at all. We just focus on a day-to-day basis. We think that approach serves us best. We short options, collect premium and in case the market goes against us, we use futures to hedge the tail risk.

We aim for a 20% return with less than 10% draw down. Over the past three years we were able to deliver such returns with much smaller draw downs. We think that focusing on shorter time frames, being nimble and rigorous in risk management is the key to generate consistent alpha in the long run.

Over the past few years, we see that more and more investors are asking for full transparency in managed accounts setup together with daily liquidity. As a CTA, we have no issues fulfilling those demands because we trade liquid, exchange listed product. We believe this trend will benefit CTAs more and make it grow faster than the hedge fund industry.

Matthias Knab **John what trends do you see from your perspective as a fund administrator?**



John Wallace: As a fund administrator, we obviously have the opportunity to see our clients' performance. We are data gatherers, data navigators and reporting agents for the funds, and from that perspective there are a number of developments of which we are becoming aware. Investors are more astute today, they are conducting a lot of due diligence and are including us as fund administrator in their discussions. We have more investors visiting us now than ever before which we welcome as we believe in the added value we provide as administrator.

Today, people or institutions do not invest in a fund just because their friend or a well known investor is in it. They do their own due diligence now. We also see many investors performing extreme due diligence and walking away, not necessarily because they found something wrong, but because they are just not committed to writing the check. They have the money, they are doing the research, they are not standing still, but still they are very hesitant to make the commitment in today's environment. This is happening across all strategies and in all geographies.

Byron Baldwin: From Eurex Exchange's point of view, our aim is to provide deep and liquid products that allow fund managers like those sat around this table today to very quickly establish positions in markets to express their macro investment views. As I said earlier, Eurex listens to feedback from hedge fund managers by establishing new contracts which give managers the necessary liquid views to express market views enabling alpha generation opportunities for their investors.

A good example is the recent launch of the French Government Bond (OAT) Futures contract – on April 16 Eurex Exchange launched a medium maturity French government bond future to complement our already existing German and Italian government suite of bond futures contracts. The OAT Futures contract complements the existing bond futures traded on Eurex Exchange and gives the hedge fund manager a wide range of European bond futures contracts in terms of their varying sovereign credit rating of each of the respective underlying bond market that the futures represents. This increases the opportunities for hedge fund managers to generate alpha by being able to switch exposure between the various European bond futures contracts. Since the launch of the OAT Futures in April the contract has been a runaway success, the OAT Future has already traded over 2.5 million contracts since its launch.

The default of MF Global and recently the collapse of the Peregrine Financial Group have taught us that client asset segregation is extremely important. Eurex Clearing is unique in that it is the only CCP that currently offers individual client asset segregation for listed derivatives and will be extending its individual client asset segregation offering to the clearing of OTC derivatives instruments as part of EurexOTC Clear. By way of double title transfer of collateral via the clearing member to Eurex Clearing to a fully segregated collateral account, Eurex Clearing gives maximum protection to client assets in the event of a clearing member default. Eurex Clearing also offers an innovative interim participant facility which allows the buy-side firm, in the event of a clearing member default, an ability to meet its margin requirements directly with Eurex Clearing for up to five days to aid the portability of positions to a new clearing member. We feel this facility is unique to OTC Clearing and significantly aids portability in a clearing member default situation.

One of the biggest challenges facing hedge funds with the mandatory clearing of OTC derivatives is finding the necessary and required collateral for initial margin on a daily basis. There have been many academic papers that have tried to calculate the collateral demands of OTC Clearing – estimates seem to vary between $1.5 trillion and $2.5 trillion. In the new world of OTC Clearing, collateral is going to be extremely important. Eurex Clearing provides a wide range of eligible collateral – over 25,000 ISINs – for hedge fund managers to meet those collateral requirements at central counterparty. EurexOTC Clear will also provide portfolio margining of listed and OTC instruments giving the hedge fund manager significant collateral savings and efficiencies – we estimate savings of up to 70% on collateral usage with Eurex Clearing Prisma, our new portfolio margining methodology, depending on the position of a clearing member.

Joe Taussig: There are four words that kind of get me excited these days, Basel III and Solvency II. The pressures of these regulations on the banking system and the insurance industry will cause further de-leveraging, and the reason I am excited about that is because I don't believe they will do it very intelligently. You can almost compare the situation to what happened in the fund of funds business during 2008 when everybody went to hit the ATM machine. If a fund of funds portfolio was constructed intelligently, it really should have de-levered by drawing cash across the spectrum of the underlying funds. By liquidating only the liquid investments, almost everybody destroyed the integrity of their portfolios.

Our reinsurers provide contingent capital to ensure the buyers of reinsurance do not have to de-lever by exiting a line of business and losing all of the margin. It is almost analogous to a bank securitizing its loans. A bank lends at 8% and

securitizes at 7%, keeping the 1% and then relends the proceeds of securitization at 8% again so they then have 9% and they keep recycling same capital, ever increasing the returns on that capital.

This will be the reverse. We have a lot of capital coming from the hedge fund industry into the reinsurance business to take advantage of that de-leveraging which is supposed be in full effect 16 months from now when Solvency II is in force, and I believe this will be an incredible opportunity for people who figure this out and know how to play the game.

Stewart Johnson We saw this already in 2008. When banks were saved by capital from TARP, insurance companies in need of cash went to reinsurers for capital. I agree with you that these new international regulatory standards are likely to increase capital levels for banks and insurance companies.

Taking your story one step further, the reason I like it as a portfolio manager in the financial sector is that I want capital out of the reinsurance system, because it will increase the price, and with that the valuation of some of these reinsurers. So there are some trickle down effects I see coming from these international changes as well.

Joe Taussig One thing I forget to mention, there are two ways for an insurer to become capital compliant. One is to add new equity capital, the other is to de-lever the balance sheet. We think adding new equity is very tough. Right now the reinsurance industry is trading at a significant discount to book value. It is very hard to raise capital at any discount to book value. Arguably, it would be better to buy back stock (which does not address the problem and would affect ratings) or liquidate. You would have a lot of very unhappy investors if you did either.

Stewart Johnson Many reinsurers are trading around 85% of book, yet the return on equity varies: some produce single-digit returns, while others produce double-digit returns. It's the matching of macro and fundamentals that helps identify the investment opportunities.

Joe Taussig I think Flagstone was sold for 61% of book a couple of weeks ago, I do not remember all the details though.

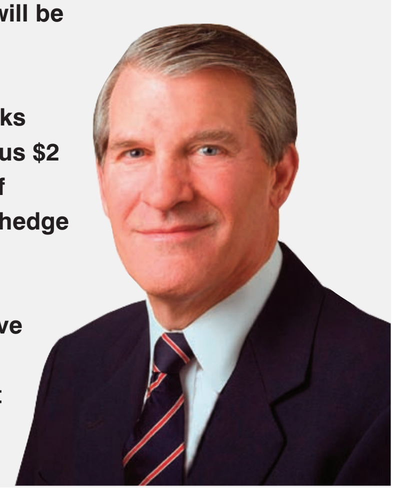
David Storrs I thought Joe was going to say there were six words that he likes.

Joe Taussig I might pick up two more from you?

David Storrs: I thought you were also going to talk about Dodd-Frank, because one of the things that has not received much press attention is that if Dodd-Frank is successful at getting the banks to shrink their prop trading desks, that will free up a tremendous amount of capital currently being managed by them and that will be managed by other people going forward.

The number you hear in this discussion is $4 trillion, including all the leverage prop desks use. So if they just halve this amount, the prop desks would manage about $2 trillion plus $2 trillion by hedge funds, for a total of $4 trillion. That's a big drop from the current total of about $6 trillion and means that, going forward, the opportunities are more allocated to hedge fund managers and they should earn higher returns.

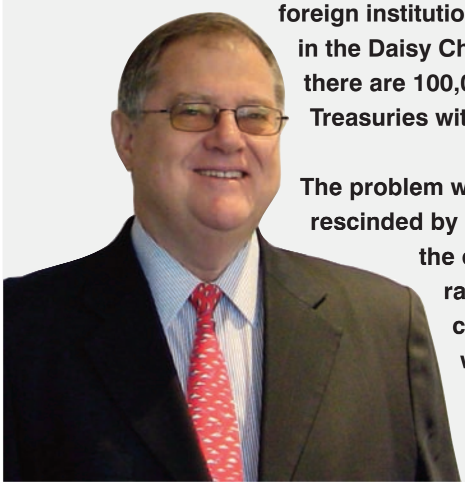
The other observation I wanted to share about Dodd-Frank is that, by now, I think we have absolute proof that the Act has not succeeded in controlling the banks. The large banks are far bigger than they were before Dodd-Frank, which is a totally separate story, but at least, on the asset side, this has a lot of relevance for our industry.



Joe Taussig Thanks David, I have just added your more words and I just thought of a seventh. How many people here know what FATCA means?

Stewart Johnson As an investment manager we have discussed FATCA with our lawyer. This is a good example of the regulatory uncertainty faced by certain financial institutions.

Joe Taussig: FATCA is a nightmare and again it is going to cause dislocations. I have not thought enough about it to advise people where there will be opportunities. I just know anytime there are these mega exogenous events that create dislocations, people find a way to make a lot of money. FATCA will require everybody who wants to transact in any kind of US instrument – and at this time it seems it isn't even clear whether it even means US dollar currencies – foreign institutions will have to essentially make a Sarbanes-Oxley type declaration that nobody in the Daisy Chain behind them is hiding money from the US tax authorities. I have heard that there are 100,000 financial institutions around the world that will not be able to access US Treasuries without that signature.



The problem with FATCA is that this is law, it was passed by the Congress so it can only be rescinded by Congress and therefore goes in effect on 1 January 2013, unless changed before the election (that is not going to happen). I have been told FATCA is supposed to raise $7-10 billion in revenues for the US Treasury but will cost $1 trillion in compliance costs starting next year. My suspicion is if FATCA stays in effect, you want to be short every major US financial instrument, because the world will be dumping a lot of them on the market. I would be happy to have anybody email me if they have come up with another theory.

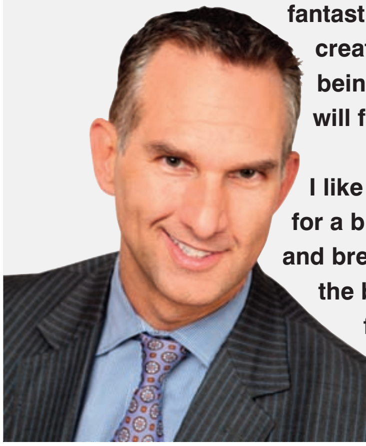
John Wallace: For a long time now, the fund administration space has been working to figure out how this could possibly work, let alone build the systems and infrastructure to comply with the legislation. Joe's commentary about shorting is an interesting observation on FATCA and its consequences – however what we need to discuss is if and how the financial industry is prepared to deal with compliance. At most other roundtables or industry events I have attended, there is not enough clarity on what FATCA means for the global financial industry and how it is going to be complied with.

There are indications of some countries making arrangements with the US through reciprocal agreements, but we do not know the details of such agreements, how they work and if reporting will still be involved, et cetera. There is a lot of uncertainty with something that is few short months out on the horizon.

Matthias Knab We have discussed a lot of macro issues affecting our industry. Let's take a look at Connecticut now, how has the state been doing as one of the leading global hedge fund centers?

Steve Simmons: There is obviously an incentive within Connecticut to keep the hedge fund industry thriving. The biggest headline of late has been Bridgewater moving from my town of Westport to Stamford. It will take about five years, which will give me enough time to get out before my tax base goes up, but all kidding aside, with the competition from New York there was a clear incentive to keep them local.

We are seeing numerous funds launching in Connecticut, although not every one will succeed. You could be a



fantastic trader within a prop trading environment in New York City, but if you are unable to create a proper business and the requisite infrastructure, which can be difficult to do at times being removed from many of the service providers who are a stone's throw away in NYC, you will fail.

I like to draw the parallel to opening a bed and breakfast. We all dream of no longer working for a big firm and starting out on our own, which is the same romantic idea behind starting a bed and breakfast; however, if you do not know how to cook, if you do not know how to advertise etc., the business will not succeed. There are plenty of advantages to starting in Connecticut, but fundamentally it comes down to the ability to build a sustainable business. I believe second only to hubris, this is where most hedge funds fail – the inability to create and execute a robust business plan.

David Storrs

David Storrs: When we started our firm in 1996, Connecticut was typically populated by two guys with a Bloomberg machine who did not want to commute to New York anymore. Today, it is populated by some of the great firms of the world. The state offers a wonderful quality of life for anybody who has a family; you can commute to New York City in 45 minutes; and you can think more clearly. A little distance helps the mind to focus better.

Dr. Hanming Rao

I think Connecticut offers a lot of opportunities for smaller funds. There are a lot of big funds in this area too. It is very close to NYC yet the cost is much lower. You can always set up a branch office in New York City, when you grow to a certain size.

John Wallace: Just looking at the number of startups we had over the past 18 months, about 70% were centered around New York and 30% in other States. Connecticut might be predominant in that 30%, but we have also had launches in Chicago, California and Texas. We see funds being started all over the place, but for most US startups, the infrastructure play is probably most easily available in New York. A start up may have aspirations to be in a certain State like Connecticut and they may maintain a post box there as a first step and plan to eventually move there, but until they get their firm off the ground and actually make some money, they will be at a location such as New York that provides them everything that they need before they can really set up their own infrastructure and operation.

One more point to that is of all startups we have seen in the past few years, all those that have started in New York are still in New York, none have moved to another State. Moving to a self sufficient infrastructure model is expensive and usually cost prohibitive for a start up unless they surpass a certain hurdle. Very few funds reach such an aspiration in the first or second year.

Steve Simmons

Attracting investors is the number one priority for growing a hedge fund. It is very easy for investors to come into New York City where they will be able to see ten or twenty funds in two days, sometimes all in one building, versus coming out to Connecticut where multiple trips to various cities beyond Greenwich may be required to see the same number of funds. I am by no means saying that this is impossible, but it is an added hurdle that a fund needs to overcome.

Matthias Knab **Is anyone of you working on or launching a new product?**

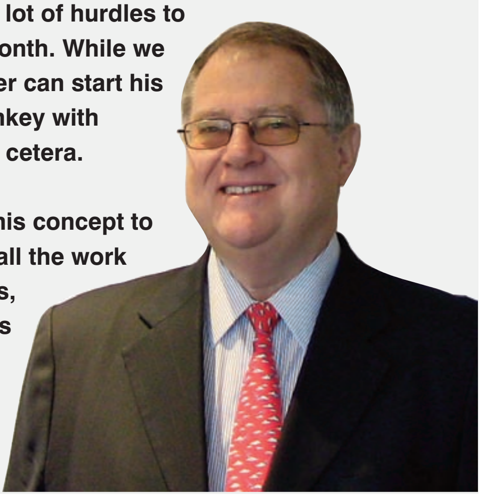
Byron Baldwin: We do have a proven, established product but it will be a new product for the U.S. Eurex Exchange's European volatility product – VSTOXX® – has now received approval by the CFTC for trading out of the U.S. So a fund manager in the U.S. now has the ability to trade European equity volatility exposure through VSTOXX® futures. The VSTOXX® futures contract will give the U.S. hedge fund manager an ability to structure relative value trades between U.S. equity volatility and European equity volatility with spread positions between VIX® and VSTOXX® and take advantage of the differing slopes of the implied volatility term structure of the two volatility contracts.

Also, EurexOTC Clear, Eurex's OTC Clearing offering, will be launched in Q4 2012.

Joe Taussig: Over the last 15 years we have worked with a number of hedge fund managers to start reinsurance companies. It has been a fits and starts type of business and we started concentrating on larger managers in about 2002. These are very long term projects. I cannot think of any of ours that has taken less than a year. They take a significant amount of time from senior executives in the fund manager (at least 10% to 20% for more than a year), and the fund managers have to make substantial capital commitments and compensation commitments to the staff. In this chicken and egg situation, you cannot raise capital without staff.

We certainly have many, many more man months invested in many more projects that failed to launch than man-months and numbers of projects that succeeded in launching. You just do not hear about those that did not launch.

In order to greatly increase the likelihood of success and mitigate the risk and cost of failure, by streamlining and accelerating this process, we have put a new platform together that eliminates a lot of hurdles to get started. We have already gotten our first two licenses approved in the last month. While we are not interested in doing it if the ultimate capital would be $1 million, a manager can start his own reinsurance company with as little as $1 million. We operate everything turnkey with performance-based metrics whether we generate float, bring in new investors et cetera.



We may do as many as two a month. Over the years we have probably pitched this concept to 1000 hedge fund managers, so we know the issues, questions and doubts, and all the work it takes to put a Greenlight Capital Re together. Greenlight actually took six years, from the time David Einhorn said he was interested in the concept until the doors opened. On the new platform, we need just 30 to 60 days to get a license and another 30 days to get the unit up and operating. We are pretty excited about it, and believe a lot of hedge funds we have talked to over the years are also excited.

Matthias Knab Can you explain to us in detail, what happens if a manager puts in say one million in capital, and what are the next steps?

Joe Taussig: You have to have $1 million of statutory capital, but you can redeploy that million (or tens, or hundreds of millions) of assets and continue managing them. It takes about a $100,000 to set it up, another $100,000 a year to operate, everything else is variable and performance based.

At only $1 million, it will be difficult to raise capital from investors who are not currently invested with the manager. However, if enough capital is committed by the fund manager, his funds, and/or his investors, about a half-dozen brokers and we can raise significant amounts of additional equity capital from investors who would not otherwise

invest in the manager's funds. If the reinsurer's capital reaches $20 - $50 million, reputable investment banks will consider taking it public. All of that equity capital and attendant float from purchasers of reinsurance coverage are full fee generating permanent capital.

We always point to the fact that reinsurance is the easiest way to raise assets. People who buy equity do care what the strategy is, but the people who buy reinsurance do not. All they care about is whether or not they will get paid if they have claims, and in order to give them the security they require, we secure all of our limits with letters of credit from major banks.

Paul Lucek: Earlier we talked about the demand for non-correlated, transparent and liquid investments, and at SSARIS we have found that our clients desire that our products have exactly those features. We already have an investment strategy that gives us a non-correlated series of returns, but we also want to provide daily liquidity and the correct investment structure. Because we are active in different locations, it turns out we need a variety of vehicles. In Europe we initially focused on creating a UCITS III fund, but recent changes in the UCITS III regulations turn out to be too constraining for the type of portfolio that we would like to create. We are therefore launching in Europe an Irish Qualified Investor (QIF) fund. We have noted that a lot of the investors in Europe require a European domiciled structure as opposed to a Cayman structure now.

Having the right investment vehicle is extremely important. For example, earlier we spoke about insurance companies. For this type of client we offer a principal protected note on our multi-strategy program. In this structure the principal investment is protected over a specified duration and the product still receives 100% of the performance of the strategy. We have received an indication from the NAIC that the rating would be a 3 and therefore have a much lower capital requirement than a typical hedge fund, which usually gets a NAIC rating of a 6. That is a very interesting product specifically for insurance companies given performance level and the reduced capital requirement "3" rating.

Matthias Knab **What other trends and developments are you currently seeing on the investor side?**

Paul Lucek: Post 2008, people are interested in tail risk protection. The most important thing that we strive to provide is stability during turbulent markets. By implementing the divergent trading strategies that I discussed before, we seek to capture crisis risk premium and try to mitigate our clients' portfolio tail risk.

With the uncertainty in today's market environment – ranging from the European crisis, to a slowdown in emerging market growth, to uncertainty regarding the fiscal cliff in the US – there is a lot of potential for downside risk. Investors are looking for strategies that can help their portfolios during these events.

Steve Simmons: **I just came back from an RIA conference where the focus was alternative investment vehicles for RIAs and wealth managers who are not affiliated with one of the core alternative platforms. One of the biggest areas of interest was 40 Act funds, and I believe this is a great growth area in the alternative space. Offering daily liquidity is very important, and for those investors who want exposure to the alternative space without necessarily going direct to a single manager makes them a very compelling option.**

David Storrs

But despite the advantage of daily liquidity, isn't there also a tremendous disadvantage of return because only a very limited group of managers are willing to do daily liquidity? And hasn't the historical record been pretty poor for those mutual long/short hedge funds with daily liquidity?

Steve Simmons

I tend to agree with you. I think historically the problem has been that some of the underlying strategies that have been shoehorned into 40 Act funds such as long / short equities, didn't belong there as they couldn't operate they way they were intended. However, a fund such as Hanming's which is based on short term trading and short term liquidity, are clear fits. Managed futures and CTA's always offered that kind of liquidity, and are naturals for 40 Act Funds. So my take is the next iteration of 40 Act funds should be fairly compelling.

John Wallace

I am not aware any of our clients launching a 40 Act fund, but a number of them are talking about it. We are looking to provide solutions for them on our alternatives platform where we have to address some technology and compliance aspects.

John Wallace: **Our expectation is that some time in 2013 the momentum will go up markedly and there will be more activity in the 40 Act space for one or a select number of products a manager runs. It won't be something that people will try to do across their full product board. Alternative 40 Act mutual funds will probably be more of the norm over the next two years.**

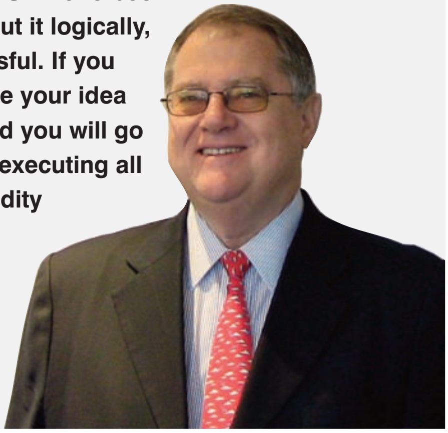
Dr. Hanming Rao

In order to offer daily liquidity, you have to trade liquid product. For example, if you trade some fixed income or illiquid asset, it is really hard to offer daily liquidity. You cannot just give back all these holdings to your clients.

Our clients can choose daily or weekly liquidity. We can offer weekly liquidity without affecting their performance. If clients ask for daily liquidity, usually they will also ask us to unwind their positions. Typically, unwinding positions may cost between 5 and 20 basis points depending on market conditions.

Joe Taussig: **Being based in Europe, I have seen this movie before, it is called UCITS. I have been totally wrong regarding UCITS, so please discount everything I say here. Think about it logically, a manager has his ideas ranked 1 through ten in the order he thinks will be successful. If you have to look over your shoulder at liquidity, you may decide that you cannot execute your idea number three because of the liquidity constraints, so you will skip number three and you will go to number four and ipso facto you are not as likely to perform as well compared to executing all your best ideas portfolio without any limitations. The effects of this give-up for liquidity varies from strategy to strategy.**

I also believe that studies on managed account platforms like Lyxor etc. uniformly found that the managed account on the platform almost always underperforms compared to a manager's fund just for that reason. As I said, I have been wrong



about UCITS and quite frankly wrong for the right reasons, because there is a significant group of buyers that are willing to accept much lower performance to have that liquidity. The question is: for how long?

Matthias would know better than I, but I believe UCITS funds have done quite well in terms of distribution and raising assets, despite the flaw of under-performance. I would submit that is probably going to happen in the U.S. too. I think that the people sleep better thinking they have the liquidity. The trade-off is that they probably won't have to report to somebody that they cannot get out of something that was gated, whereas nobody or not as many people as I initially thought are going to complain about that under-performance.

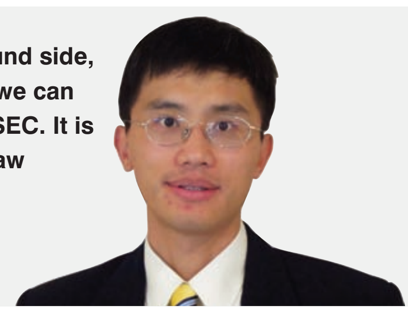
Matthias Knab Also there are some real investor protection provisions in the UCITS funds and I guess it is the same with the 40 Act funds. That does not mean you shouldn't do your due diligence on the manager, the strategy and the fund terms, though.

Joe Taussig Correct. Apart from liquidity, as we discussed here investors should also check if the manager is able to run the full strategy within UCITS or only parts thereof due to other investment restrictions of the UCITS framework.

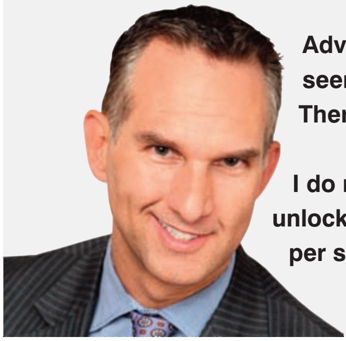
Stewart Johnson: In addition to fund investors that may want liquidity options, I see a similar situation at the corporate level. Looking at the universe of companies we invest in, many of them are holding higher-than-normal levels of cash to address uncertainty, including a potential black swan event, even if it means a lower investment return. The lower investment return translates into a lower return on equity, but portfolio managers in general, myself included, seem willing to take the trade-off. Given today's macro environment I would rather own a company with a slightly lower return on equity with the assurance higher levels of cash are available to shield against the unexpected.

Matthias Knab When we talked about the four, six and then seven words that excite us, but nobody here has mentioned the JOBS Act so far. Doesn't the JOBS Act excite you too?

Dr. Hanming Rao: The whole situation is still very confusing. If you are on the hedge fund side, it seems the SEC will allow you to advertise. But for CTAs who filed QEP exemptions, we can only talk to qualified eligible persons. We are also regulated by NFA/CFTC instead of SEC. It is not clear if we can advertise. One thing for sure is that the JOBS Act will be good for law firms.



Steve Simmons: Like most new products and regulations in our industry, there seem to be an awful lot of “gray areas”. We have seen a significant influx of funds saying, “This is great…help us craft marketing pitches to really get us out there to the masses”, and some managers really anticipate wrappers on bus stop stands etc. Are we really to believe that a potential investor will be swayed by looking at a funds' one, three, and five year track record on a bench at a Metro North stop?



Advertising in our industry isn't something completely new, it was just more subtle. We've all seen funds sponsoring "Thought Leader Awards" in the back covers of key industry magazines. There are numerous examples of funds circumventing the previous rules regarding advertising.

I do not believe the JOBS Act is actually the panacea that funds believe it will be with regard to unlocking the door for capital raising, nor do I believe that investors will be protected as intended per se. In the end, I believe the attorneys and compliance officers will benefit the most.

Angelo Robles

While over all the JOBS Act is interesting and likely to have a positive effect for hedge funds in my opinion, depending how it really will come into effect, from the single family offices perspective it doesn't really have any effect.

Angelo Robles: It is not likely that you'll get on the radar of a family office because you advertised. These family offices I work with and who allocate to alternatives all have their relationships, they are well known in the investor community, they get opportunities presented to them through multiple channels, from cap intro to prime brokerage and through peer networking; they have their own ways to reach funds.

So regarding JOBS Act and family offices, I would maybe rather add a negative spin as it may make some emerging managers more focused on accredited investors, qualified purchasers or small institutions, which – obviously depending on a variety of factors – may be less attractive to families that want to get into a fund early on in order to get favorable terms. In many cases family offices are willing to put a larger allocation into a new fund, which is more attractive to them compared to being part of a larger group of people with smaller allocations.

Joe Taussig: If you have not read this JOBS Act yet, I recommend you do. It is only 22 pages long. This Act is one of the few pieces of legislation that you can actually read and understand. From our perspective the JOBS Act is a huge plus, because it allows the smaller managers to come onto our platform and take advantage of the extra strategy of a public offering. We have had discussions with a number of investment banks and as long as the market cap is $100 million or more, they are pretty sure they can get a deal out the door. Before we had to form much larger companies just to get started.

Max Re wasn't one of our deals when it was started by Moore Capital, but I was told by my next door neighbor, who was one of the three top executives, that guarantees were $25 million for the staff to come in. That is a prohibitive amount for smaller managers to join this game. Therefore, our approach with the new platform is to incubate these companies, operate and help them build, and when they get to critical mass, they can bring in a CEO and a CFO. We have one reinsurer set up by a hedge fund manager going public right now, with just a CEO and a CFO. We have a well known underwriter, and the manager will be able to more than double his AUM on the offering. It is a significant transaction for him.

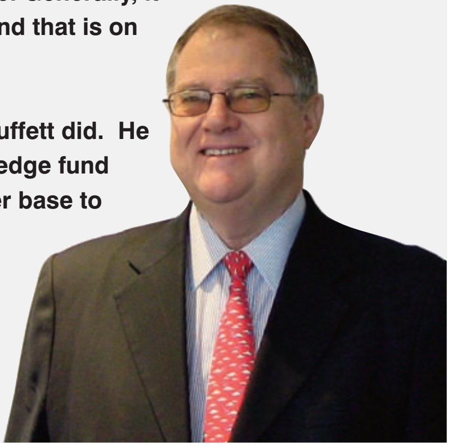
We could not have done this without the JOBS Act. It compresses the time, costs and risk of failure dramatically. The other aspect is if you have under $1 billion in revenues, which all of our companies have (even Greenlight Re is still below $1 billion in revenues), it means you are exempted from Sarbanes-Oxley for five years and enjoy a large range statutory benefits we are pretty excited about.

For us, the JOBS Act isn't a kind of advertising gimmick like for most of the hedge fund industry, but a great proposition and framework for our type of work. As I mentioned we expect two managers per month starting this type of reinsurance vehicle over the next couple of years, and a good number of those will be able to get out in the public capital markets and look more like Greenlight Capital Re.

Steve Simmons

Joe, you mentioned before how managed accounts tend to underperform a fund manager's fund structure, is there a comparable underperformance happening in your space once a manager runs his investments through a publicly traded vehicle? Does this change the way they invested before as a more traditional hedge fund?

Joe Taussig: This is a great question. The only benchmark we have is Greenlight Re. Generally, it has outperformed David Einhorn's funds by roughly 6% per year since inception, and that is on a mark to market basis.



But let me also point out here that this is not a new concept. This is what Warren Buffett did. He has laid the whole thing out for everybody more than 40 years ago. Buffett was a hedge fund manager for 13 years and quit cold turkey, because he found reinsurance is a better base to deliver asset management skills to investors, if you run it properly.

The down side is that you actually have leverage. So if a manager loses money over a five year horizon, he shouldn't do this. On the other hand, if he makes money on every five year rolling period of time, his reinsurer should outperform his funds.

Matthias Knab

Let's come back to the family offices for a moment. Angelo, how do you see single family offices' interest in hedge funds at this time?

Angelo Robles

Single family offices have been the early movers in hedge funds. Going 10, 15 and more years back, family offices were practically the driver behind every major hedge fund, even the so-called hedge fund legends. That was way before seeding became popular among some institutions or fund of funds.

However of the last couple of years or so we came a point where a lot of those major funds became more of an asset gatherer. Especially as the institutional investors have started to play a bigger role, money keeps on flowing into the larger funds, and a main reason is that the consultants, committees and decision makers within and for institutions play it safe out of concern and buy IBM, so to speak.

That becomes an interesting dynamic. Of course, you probably cannot go that wrong making allocations to different $10 billion managers. But I know the families that do not have the tax advantages, that have unique challenges, that have multiple distributions and other challenges, they need alpha in this challenging world.

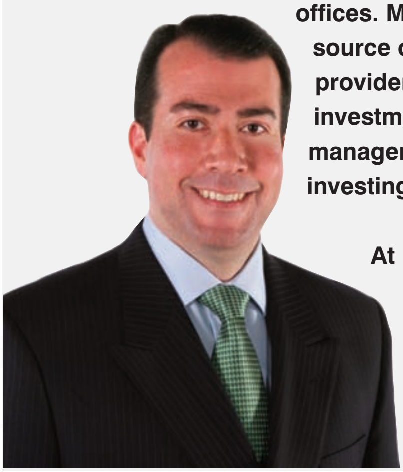
Today, we talked about investors' preference for de-correlation, liquidity and transparency, and right, I also see the families potentially willing to give up a little bit of return for liquidity. That is a very sensitive point with a lot of families now.

Angelo Robles: Of course, every family is looking for uncorrelated 15+% in alpha and a 100% downside protection, which of course is unrealistic. There may be some traders that have proved the ability to pull that off to a certain extent. Families are difficult because they want outsized returns, yet they also don't want to lose money.

What happened leading into 2008 was that many families have followed blindly a generic endowment model which resulted in 30% or 40% losses. They did not have downside protection, they were not looking to add a fund to hedge their tail risk, although that has become quite popular lately. Every family talks about that, however so far very few families actually implement it. Nevertheless, family offices today are getting more active in strategies involved in hedging and have become in general more careful about their portfolio.

I have also seen that European families tend to be more active in global and emerging markets, while many American families tended to be a bit more conservative and actually feel that the American equities market can potentially offer good opportunities in the short term for someone who is a good trader or has the right strategy. Still, generally speaking I feel that American families could be more diversified into emerging strategies.

The families I talked to are yearning for opportunities in Asia, in LatAm with managers directly based on the ground there. Even large families with say $2 billion or $3 billion assets just do not have the staff for such satellite investment offices. Maybe the large institutions, the CalPERS etc. can have staff around the world that can source opportunities, but the families can't. My point here is that there are opportunities for providers to bring great value to families that are looking for more diversity uncorrelated investments outside of their geographic area. The families are open to cooperate with managers operating in Asia, LatAm, Europe etc. who also can be smaller, more nimble or investing in strategies that may have limited capacity.



At least in theory, the SFOs – single family offices – care less about the business success or growth of a hedge fund. They like to invest into a strategy that is small and nimble, and in fact many managers say they want to stay that way, but financial motivations lead them to collect a lot more assets, they get larger, and in the end I cannot blame them. The one thing you'll see though is that many families are first in and also first out, once the hedge fund starts to do that.

Matthias Knab **You mentioned 2008, can you elaborate a bit more how after the crisis family offices have changed the way they invest into hedge funds?**

Angelo Robles Supposedly much more careful, but you see also some with a short memory, they forgot and went back to the same things that have caused them a problem in the first place.

Angelo Robles: Another change of certain aspects of the hedge fund industry relates for example to the fund of funds – they are pretty much a dead thing for family offices. The vast majority of family offices has internal talent and will not pay for or need someone else to be a buffer between them and the underlying strategy. However, in certain areas like venture capital or more unique strategies, families will still be willing to work through such an intermediary.

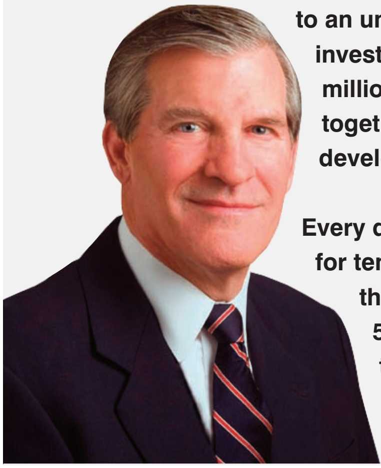
I already mentioned there is definitely an interest in smaller managers where the family office can control liquidity and transparency. That can alleviate the relative fraud risk because you can see and control what is happening via the custodial account.

Another thing we some times see is that two, three or ten families coming together to source an emerging manager. They will go to that manager and say something like "you now have $30 million out of which $10 million is your own money, we will potential invest a block of $20, $30 or $40 million, doubling what you currently have, but we want some favorable terms." Some of them are better negotiators than others, and a number of them also feel they do not want to beat up the manager too much, because they realize he has to make a living as well and has a need to be successful as an entrepreneur.

The other major change we see post 2008 is that families now have plenty of opportunities to hire talent that necessarily was not available to them before but rather to the larger institutions. I think the opportunity of working directly for a family with global interests it attractive. New compensation structures are being worked out that tie in performance. I see more and more single family offices being created, oftentimes with a better level of talent working in senior positions.

Some families create their own investment strategies internally, Michael Dell being one of the most prominent. They hire top tier talent and to have total control over the process they are basically creating internal hedge fund strategies. They try to work at favorable terms, so they may not pay 2 and 20 to such an internal manager, something in between. In some cases the strategy can even get rolled out to external investors, but that depends on the specific set-up and environment.

David Storrs: Following on Angelo's reflections about the hedge fund industry today and 20 years ago, we have gone all the way from selling products that have some mystique and mystery attached – and a touch of genius thrown in – to an understood product. At the same time, a lot of us have evolved into highly specialized investment solution providers for the clients. For example, our biggest account is a $500 million fund of hedge funds that we have advised for 13 years. The client and we work together to tailor exactly what they want and, in my view, this is one of the major developments in this industry.



Every day, investors come to us and tell us "private equity or venture capital have been lousy for ten years, I do not want to do that anymore..", or "I am scared to death of bonds because I think interest rates are going to go up, and twice in ten years the stock markets went down 50%, so I am worried that this is going to happen again!" They are looking to us to solve their problems, not sell funds. I believe if our industry can migrate toward solutions rather than just selling products off the shelf, it will be a good thing for all of us.

Steve Simmons I agree with David, as we follow the outsourced solution provider approach. We operate as a free resource for family offices, endowments and foundations who are looking to allocate in the alternatives space. They explain their investment parameters, and we provide a bespoke approach to source and vet the appropriate vehicles. While much of our work is within the family office space, we have seen significant growth in the foundation and university endowment space, as many of them tend to have smaller, more sophisticated investment teams that benefit from an "extra set of eyes", rather than blindly going into a household fund that may be significantly underperforming the overall market.

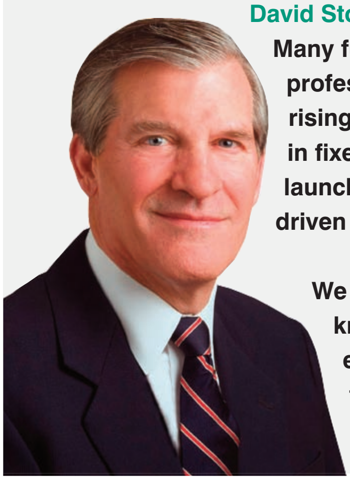
John Wallace Steve, I have a question for you. If you are looking at a hedge fund manager who has been around for let's say ten years with average performance, what actually happens if he decides he will reinvent himself doing bespoke portfolios that maybe he did not do before and may not have this expertise. What is the success rate of such endeavors, and does that detract from his flagship fund?

Steve Simmons That's a great question. The "jump the shark moment" for most funds is when they go from focusing on creating alpha, to focusing on how to retain the management fees.

Steve Simmons: There is a reason why Soros and a number of multi billion dollar funds have converted to the family office model. They cannot attain the returns they did historically when they were smaller and it's easier than reinventing themselves. You cannot be a $10 billion dollar merger arb fund and enter a trade without crushing the spread.

The average sized funds with mediocre returns over a ten year period have built up an infrastructure they need to support, so many of them become "creative" in their approach to secure their assets. My fear is that during that reinvention process, a fund is compelled to swing for the fences mentality, and I think we all know how that ends up – in most cases awful. If the fund is underperforming, an "enhanced leverage class" is not the answer for an investor. In an ideal world, the manager would take a step back and recognize the shortcomings within the fund's strategy and refocus, without creating style drift. Given the plethora of funds and ETF products out there, there is no shortage of choices for appropriate investment vehicles, and under performance will not be tolerated. Investors will vote with their feet.

Matthias Knab **David, how did your firm make this transition from a product to a solution provider?**



David Storrs: One important aspect is never to do it unless you have the people who can handle it. Many funds of funds have been cutting back and we have actually been expanding our professional staff this year. For example, there's a good solution for investors worried about rising interest rates, but we would never have offered that without people with lots of experience in fixed income. We have been asked by two of our institutional relationships to explore launching strategies to solve other issues they have in their portfolios. These initiatives are being driven by clients' needs and we are providing solutions.

We have a partner in London who spends a lot of time in Asia, so that gives us good knowledge about Asian emerging markets. Many investors know very little about Asian emerging markets, so we can help them think about it, not necessarily to invest in our funds, but to reflect if Asian exposure can be a good solution for a part of their investment problem.

But the core message has to be that you need to tailor your solution according to what the investor wants and deserves. Managers forget it is the investor's money and the investor has a say in how it is handled. For example, some investors want the highest liquidity possible and are willing to pay for it, while others prefer lower fees and a longer holding period. Some investors might feel very strongly they want full security-level transparency, while others are comfortable with risk-level transparency. Our objective is to find the best match for the investor, then implement it as effectively as possible.

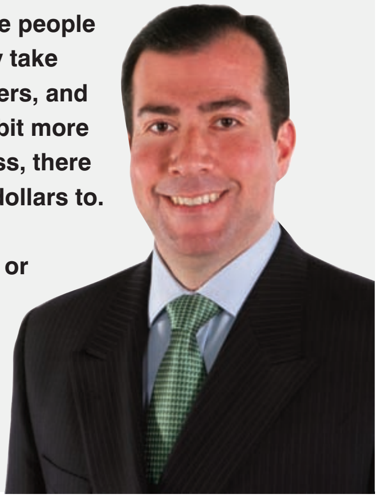
Matthias Knab **Any final remarks?**

Angelo Robles I am based in Greenwich but through our association I have good insights into other wealth management centers like New York, London, Singapore and other locations where a lot of the family offices operate.

Angelo Robles: A recent trend is that a number of family offices are now being created by people who have been successful in hedge funds. We mentioned Soros who has converted his hedge fund to a very large single family office, but there are dozens if not hundreds of lesser known but successful hedge fund managers, traders, private equity managers, venture capitalist, Wall Street tycoons, not just in Connecticut, New York, San Francisco here in the US, but around the world setting up family offices.

We got two calls in the last couple of weeks from Singapore, both relatively well known people in the financial circles that are creating their own single family office and were looking for a forum or feedback regarding some operational and structural questions.

For all those reading this Roundtable script, allow me to point out that these people do create a different dynamic within the family office and the broader wealth management field. These people are very, very bright and now they are single family offices. They invest very actively, they take pride in their portfolio and in the decisions they make when working with external managers, and they are definitely seeding managers. From the perspective of a manager, they may be a bit more difficult to deal with than the traditional family office founder because of their past success, there is always a risk they think they know better than others or those they are now allocating dollars to.



These people were extremely successful and can come with a net worth of a $100 million or more, and there are a lot of them. As family offices, some of them may opt to be very proactive, they may occasionally develop a financial instrument or decide to turn their operation into a multi-family office and taking in other families. For us as a family office association, we are quite pleased seeing this dynamic within this new subcategory of family offices coming out of the corporate financial world.