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SINGAPORE

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Editor's Note

More global hedge funds, family offices chose Singapore

International players like Tudor, Fortress and Bluecrest have expanded their local presence in Singapore and view Asia as an unique market set with many interesting investment opportunities, where many different strategies across various business units can be applied. This confirms Singapore's reputation as a reliable wealth management center. International family offices are also opening offices there to establish a safe hub for the family assets and its related management. Compared to ten or even five years ago, Singapore today offers a rich ecosystem for alternative investment managers. Close to 30 fund administrators are now in Singapore.

Over 50% of global foreign exchange reserves belong to Asian countries – but when will these assets be managed by Asians?

While a lot of money is invested in Asia, a good amount of it is actually recycled money - meaning that the funds were created through excess savings in Asia. Those funds were then channeled out to Western institutions, who reinvest them back into Asia. It is likely that in the near future this circle will change and more Asian savings at the individual, institutional and sovereign levels, will be directly invested into Asia through Asian funds.

Asian sovereign wealth funds have been asked to help kick-start funding and ease the start-up challenges of hedge funds in Asia. In the past, potential investors perceived a lack of talent or experience, but these days, new managers tend to be traders from the global investment banks, sovereign wealth funds or other larger hedge funds, with years of experience and solid track record. The talent pool has matured, and has been recognized by international investors who continue to allocate to Asian managers.

What does the Chinese Renminbi fixing at 9:15 am Beijing time mean to the world?

One generation back, fund managers in Asia during the 70s and 80s were largely trading the "side effect" of whatever happened in Europe or the U.S. That meant that in order to trade Asia well until the 90s, a major component would be one's understanding of what the Fed or the ECB would do in terms of monetary policy, as well as all the respective economic developments in the West.

However, from 2010 onwards there was a noticeable shift of the global markets toward how China Renminbi fixes the Renminbi in the morning at 9:15 am Beijing time. This fixing has morphed into a very important event just like the 11a.m. London LIBOR or the 10 a.m. New York fixing had become over the years. Meaning that now, London traders might have to be awake at 1 a.m. to watch the China fixing or Chinese inflation figures, just like traders in Asia have to be up at 2 a.m. on the day of the FOMC announcement.

Twenty years ago, if inflation in China came out at +10% or -10%, it would have had no impact on global investor sentiment. However, if Chinese inflation hits +10% or -10% today, it would be a major cause for concern.

The Opalesque 2012 Singapore Roundtable was sponsored by Eurex and SunGard and took place in Singapore in early May with:

- **Roxanne Davies,** Managing Director, Parly Singapore
- **Danny Yong,** CIO, Dymon Asia
- **David Dredge,** Fortress Investment Group, Co-CIO Convex Strategies Group
- **Guan Ong,** Founder and Principal, Blue Rice Investment Management
- **Kashao Lee,** CIO, Cavenagh Capital
- **Roland Schwinn,** Head of Sales and Business Development for Asia Pacific and Middle East, Eurex Group
- **Mark Wightman,** Head of Alternatives Strategy, SunGard

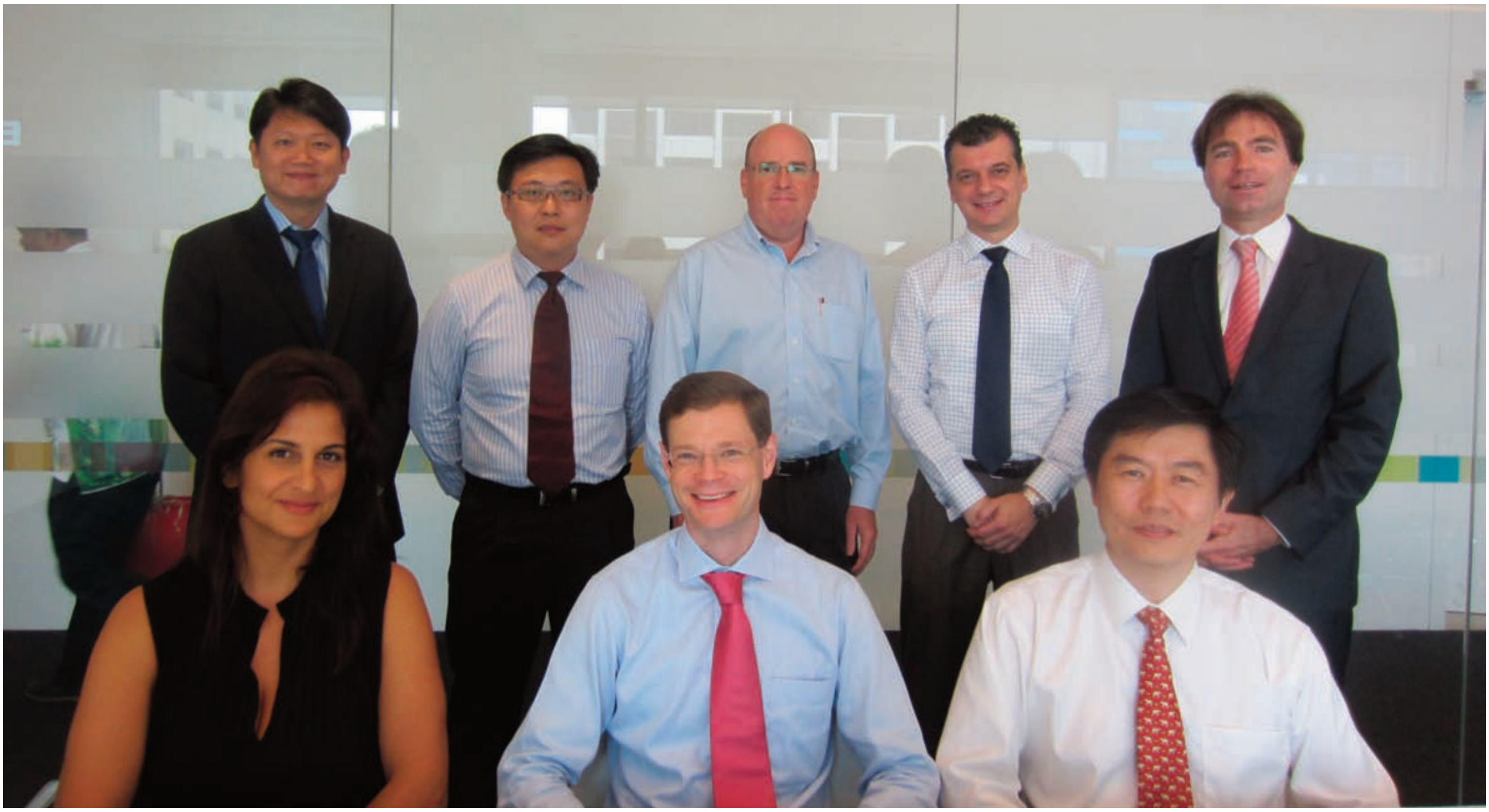
... background and facts about:

- **What are family offices investing in?**
- **What is the "right" risk reporting and transparency when communicating with investors?**
- **Which risks for the global economy do Asian managers see?**
- **How do emerging Asian hedge fund managers survive and succeed? How do you raise money in Asia?**
- **How do statistical concepts like bi-polarity and heteroskedasticity help macro traders deal with a changed world?**
- **What are the benefits of EUREX' new Client Asset Protection program, and who can participate?**
- **Why have family offices expanded internal trading and hired more former bank prop traders?**

Happy reading!
Matthias Knab
Director, Opalesque Ltd.
Knab@Opalesque.com

Cover Photo: Singapore

Participant Profiles



(LEFT TO RIGHT)

Danny Yong, Lee Ka Shao, David Dredge, Roland Schwinn, Matthias Knab

Roxanne Davies, Mark Wightman, Guan Ong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Introduction

Roxanne Davies
Parly Singapore

My name is Roxanne Davies, I am the Managing Director of Parly Singapore. We are representing a European family office. We recently arrived in Singapore to build a base for best practices in wealth management for family offices.

Mark Wightman
SunGard Asset Management

My name is Mark Wightman and I am the global head of alternatives strategy for SunGard Asset Management. 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 & partnership accounting and independent valuation services in both a hosted or local environment.

Guan Ong
Blue Rice Investment Management

My name is Guan Ong. I am the Principal of Blue Rice Investment Management. We are a recent startup Asian credit fund, based in Singapore and started about three years ago to focus on the Asian dollar-denominated credit space. Prior to this, I was previously the Chief Investment Officer for Korea Investment Corporation, the Korean Sovereign Wealth Fund, and before this, I was with US Prudential in various Asian locations for about 8 years.

Lee Ka Shao
Cavenagh Capital

I am Lee Ka Shao. I am the Chief Investment Officer of Cavenagh Capital, an Asian centric discretionary global macro fund, focusing on trading of foreign exchange, rates and derivatives market in Asia looking at probabilities of events in our construction of trades.

David Dredge
Fortress Investment Group

My name is David Dredge. I am with the Fortress Investment Group and am based here in Singapore. Fortress is a New York based publicly listed asset management company that runs businesses across both traditional fixed income investment and alternative investments in private equities, distressed credit and real estate, and hedge funds. I am the Co-Chief Investment Officer of the Convex Strategies Group, which is a new business that Fortress has launched here in Singapore.

Roland Schwinn
Eurex Group

My name is Roland Schwinn. I am Head of Sales and Business Development of Eurex for Asia Pacific and the Middle East. Eurex Group consists of Eurex Exchange, the International Securities Exchange (ISE), European Energy Exchange, Eurex Bonds, Eurex Repo and Eurex Clearing, one of the world's largest clearing houses.

Eurex is part of the Deutsche Börse Group, which is not only a German Exchange. It is also quite a large group that includes Clearstream Banking, the Frankfurt Stock Exchange and markets like the ISE International Securities Exchange in New York.

Danny Yong
Dymon Asia

I am the CIO of Dymon Asia. We are an Asia macro fund focused mainly on FX, rates and equity index trading. We have offices in Singapore and Hong Kong, with the majority of our staff in Singapore, with a total of 27 people.

Matthias Knab **Some of you represent global firms or institutions. What is the role of Asia within your company strategy, and in particular, why did you choose Singapore?**

David Dredge On a personal level, I chose Singapore back in 1987 when I first moved here.

Fortress does have a growing presence in Asia. We have a decent sized business in Tokyo and offices in Sydney, Hong Kong and Shanghai. Singapore has expanded significantly in the last year. Adam Levinson, who is the the Co-CIO of the Fortress Macro Fund and the CIO of the Fortress Asia Macro Fund, came here at the beginning of last year and has been building out the office since then.

My colleagues and I joined the firm in October 2011 to start a new strategy under their liquid markets division, which houses the hedge fund businesses, called the Convex Strategies Group. Fortress sees Asia - as I do - as a great opportunity, as a unique market set with all sorts of interesting investment opportunities, and a place where we apply many different strategies across the various businesses within Fortress.

Specifically within our business, we have just launched the Fortress Convex Asia Fund, which is a long volatility and negatively correlated return strategy, focused on Asian markets. We see Asia as being uniquely rich in terms of opportunities for what we do and what I have done for various firms both on the sell side and the buy side for most of the last 25 years out here.

I have lived in Singapore, Hong Kong, Tokyo, Jakarta, and Seoul over the years. I find Singapore just a great place to live and do business. It is a great combination of a work environment and a lifestyle. It is very conducive for those of us who need to travel a lot, the infrastructure for travel is unmatched in the world. The regulatory environment is a very thoughtful, cooperative, open dialogue, intelligent process. I think it makes it a particularly good place to be in, in the money management business or in the financial industry business in general. And the food and the golf are exceptional.

David Dredge

Roxanne Davies As you may know, Matthias, the family I represent, has had investments in Asia for well over twenty years, in different structures. The opportunity set is still growing. As a result, we felt like having a presence in Asia made sense. There is no question you are able to build a stronger base with better information flow, when you are on the ground.

Singapore has made an excellent case to be the new hub for wealth management. This is a very well-run country, with a highly intelligent leadership, following a very pragmatic approach to business and to growth. In the light of what is going on in rest of the world, having a presence here seemed sensible from a diversification perspective, not only to benefit first hand from the flow of information across all Asian markets, but also, to establish a safe hub for the family assets and its related management.

Roxanne Davies

Danny Yong: As Roxanne mentioned, Singapore could become the hub for wealth management, and I wonder whether Singapore could become the hub for hedge funds and the alternative management space as well? We all recognize the thoughtful regulatory system, world class healthcare and education system, and the lifestyle Singapore can offer. Over the last two decades, we had seen a lot of the large funds from London and the U.S. trading Asia out of their home base. I wonder if at some point, could we see some very large funds trading Europe or the U.S. out of Singapore? Admittedly, there would be a time zone disadvantage, but it will not be unlike trying to trade Asia out of Europe or the US.

Perhaps, we need some Asian sovereign wealth funds to help kick-start the funding to ease the start-up challenges of hedge funds starting up in Asia. Investors often comment that the Asia hedge fund industry lacks depth, in reference to the fact that there aren't many big or institutional funds operating from Asia. It helps that large, international players like Tudor, Fortress and Bluecrest are adding to their local presence in Singapore, that is a benefit for the whole industry out here. So, we will see, perhaps when Opalesque does the 2030 Singapore Roundtable, Singapore may then be the leading global hub for alternative investments!

Danny Yong

Roland Schwinn: Danny's dream is that one day big hedge funds and CTAs would trade Europe and the U.S. out of Singapore, and I can tell you, this is our dream, too. The good news is that to a certain extent, this is already happening.

We are a global derivatives exchange with a broad range of trading opportunities. That means most of the clients and hedge funds that trade our products do so via our exchange members, for example the larger prime brokers. Our direct customers are usually the big banks, but also large proprietary trading firms and actually also some hedge funds. Over the last five or six years we could see that particularly the more sophisticated firms from the U.S. and Europe opened offices in Singapore or Hong Kong. Hong Kong is a big equity market, therefore the equity firms tended more to be in Hong Kong, while in Singapore you find more international futures firms.

These firms started out to trade Asian equities or futures markets, but once they had all their systems, infrastructure, knowledge and expertise in place, they actually did start trading back to Europe. This is, in essence, how our business at Eurex Group started in Asia. We are now in the second wave where the original Asian market participants, especially the Chinese brokers through Hong Kong, but also Taiwanese brokers and increasingly also regional Asian banks start to trade our markets. These days we also see an increasing interest from Indian trading firms.

Roland Schwinn

Keep in mind, that those propriety trading firms started their trading activities out of Asia also because they got attracted by the very interactive tax regimes and the supportive and business-oriented regulation. As we see, these factors continue to bring business down here. Of course, on the macro level the economic shift from West to East has started already a while back. From an exchange perspective, being in the middle of the derivatives trading, we see this continuing.

Mark Wightman: Of course, the alternative investment industry needs people like yourselves, the fund managers, to drive alpha. We view the alternatives industry as an ecosystem centered on the funds with the vendors and service providers to support you, such as the prime brokers, administrators, lawyers, technology firms, accountants, and everybody else. If you look at Singapore today compared to where we were even five or ten years ago we now have a very rich ecosystem. For example we have close to 30 administrators now in Singapore.

Most of the prime brokers have operations here as do most of the important vendors. For SunGard, Singapore was our initial Asia Pacific headquarters from where we built out Asia to the point where we have about 5,000 people across 19 offices in the Asia Pacific region. We view Asia as clearly one of the strongest areas for growth globally, and we have been investing the resources locally.

Mark Wightman

We already touched on the government and the regulatory environment and I guess we will talk about that in detail later as well. As a start I wouldlike to mention that with the new FMC rules coming into play the regulatory environment in Singapore is very similar to Hong Kong and evidently pro business. Some of the investors we have spoken to over the last year have been a little nervous due to the uncertainty over the new regulations but it is becoming clear that everybody is going to be regulated. I think that is a big plus and clearly the MAS has been looking at that very carefully.

This ecosystem relies on strong talent whether for investment management or the associated services, such as fund administration, and I find it fascinating that Singapore is probably the only country I know of where you can receive higher level education specifically focused on these areas (tying in with the government's focus to make Singapore a global asset management hub). You have CAMRI (Centre for Asset Management Research and Investments) at NUS (National University of Singapore) and Nanyang Polytechnic even runs a 1 year diploma in Fund Management and Administration.

The government here is doing a great job in terms of looking at the needs of the industry for the future and I too share Danny's dream!

Guan Ong Roland spoke earlier on the early wave of players who came to Asia to be nearer the markets to better manage their Asian investments.

Asian markets are generally smaller and more fragmented compared to the Pan-European or U.S. markets, but the liquidity and size of all of the individual Asian markets have grown over the past five to ten years and will continue to grow.

There are already many managers in Asia who deploy all kind of strategies from Asia, investing into and outside the region. The growth has been quite broad based, spanning from the different Asian asset classes, the types of instruments traded, the technology used and the different service providers, the exchanges, the wealth managers, and so on. Singapore and Hong Kong have been the main centers where the growth is clearly evident.

Guan Ong

Lee Ka Shao: While a lot of money is invested in Asia, a good amount is actually recycled money, meaning the funds were created through excess savings in Asia, and then, for a long time already, those funds were channeled out to Western institutions outside of Asia, who then reinvest them back into Asia. This circular flow has been going on for a while now, and I believe we need to have another, shorter circle where Asian savings, both at the individual and the institutional and sovereign level, will have to start being comfortable in investing directly into Asia through Asian funds.

We are still at the early stages of this investment route, and one reason is probably that the vast majority of the wealth in Asia, both at the sovereign and individual level, has been created only in the last one or maximum two generations. This is in contrast to the West, where wealth has already been passed down many generations and people in general are comfortable with having their money managed professionally. On top of that, most Asian high net-worth investors always have a lot of impetus for direct investment. Therefore, it may take another generation or maybe around 20 years for the mentality to change, over and above what Danny was talking about to establish a fundamentally deeper and mature Asian investment infrastructure.

When you invest in Asia, you need proximity to markets. We realized this ourselves when we first started out our business from Amsterdam. This was because our cornerstone investor was IMQubator, the seeding vehicle backed by APG, the Dutch pension fund. We were in fact trading Asian markets during the Asian time zone out of Europe. That meant we effectively started our day at midnight.

It was an interesting experience, which we don't have to repeat now as we have moved to Singapore. We don't need to get up that early any more. But it was also an interesting observation that from 2010 onwards there was a shift or gravitation of the global markets towards how China Renminbi fixes in the morning. It may sound a bit puzzling to people who never followed the Chinese Renminbi fixing at 9:15 am Beijing time, but over the last year to year-and-a-half this has morphed into a very important event just like the 11 am London LIBOR or the 10 a.m. New York fixing had become over the years.

This is the markets' endorsement of the rise of Asia and the ability to influence or set the tone of the market in that regards. For that reason we had to be awake in early European time when we were based in Amsterdam, because that fixing in Beijing does affect the tone for Asian markets. I would predict that the next stage of this evolution would be that more participants may opt to be closer to Asia for the same reasons, and set up here, as all of us here at the table have done it.

Lee Ka Shao

Matthias Knab **Lee Ka Shao had to move from European to Asia in order to be within the time zone and markets he trades. On the other hand, we discussed trading the world – Europe, U.S. - out of Asia. Will this work, or would you have to set up in those places as well in order to trade them efficiently?**

David Dredge: Time zone is always a challenge regardless of where you are. However, the openness, transparency and efficiency of the more developed markets in the U.S. and Europe make to some extent the information imbalances much less in those markets.

Also remember that the Western markets are to the most part limited to the Euro and Dollar markets, whereas in Asia you are dealing with a much greater diversity of markets. We have the Aussie, Kiwi, Hong Kong and Singapore Dollars, the Yen, Yuan, Won, Rupiah, and Ringgit etc. All come with unique regulatory environments. We have onshore curves, offshore curves, OIS curves, SOR curves, MIFOR curves so much that adds to the uniqueness of the markets out here.

Obviously, to a certain extent you have the same in Latin America or Eastern Europe, but in terms of what drives the major markets in the west, you can see most if not all of the necessary information and drivers on one screen. It is a lot easier to understand the workings of the US Dollar LIBOR swap curve than the Indian rupee offshore MIFOR curve. You definitely need local information and knowledge for these kinds of markets.

David Dredge

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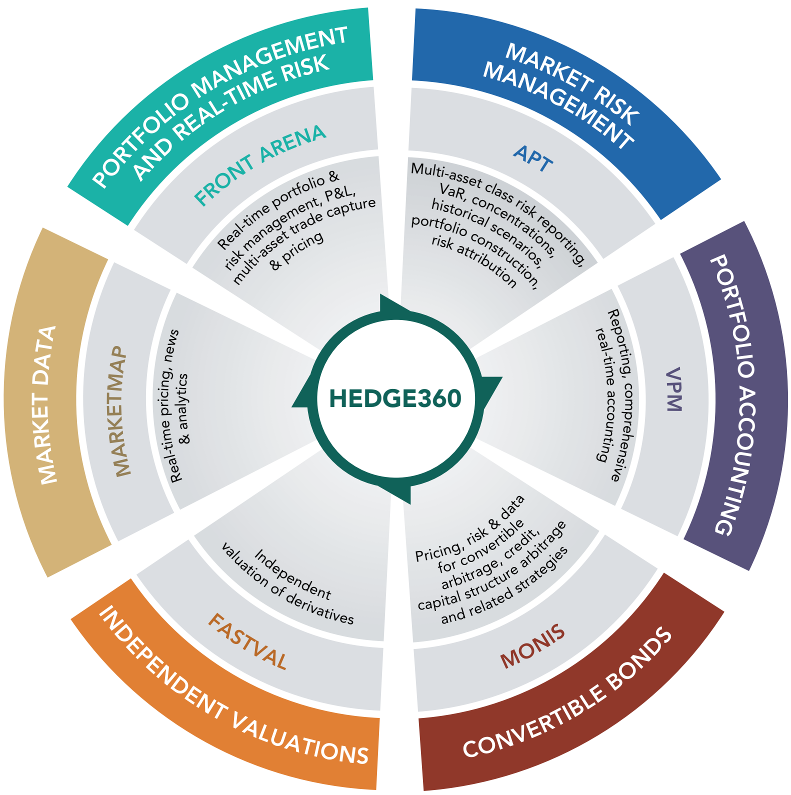

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Danny Yong: I concur with David. If you go back a generation, the guys who were trading here in Asia in the 70s and 80s, were largely trading the "side effect" of whatever happened in Europe or the U.S. That meant that in order to trade Asia well until the 90s, a major component would be one's understanding of what the Fed or the ECB would do in terms of monetary policy, as well as all the respective economic developments in the West.

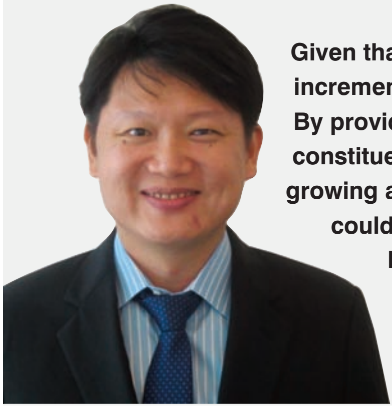
Today, given the size of Asia as a proportion of global demand, as well as Asia's outsized foreign exchange reserves, trading Asia has become a lot more idiosyncratic. What happens now is that investors globally actually need to care about China, India, Australia and the rest of Asia. Twenty years ago, if inflation in China came out at +10% or -10%, it would have had no impact on global investor sentiment. However, if Chinese inflation hits +10% or -10% today, I think all hell would break loose across the investment world.

You could say that the size of Asia and its larger economies have leveled the playing field a little today where traders in London might have to be awake at 1 a.m. to watch the China fixing, or Chinese inflation figures, just like traders in Asia have to be up at 2 a.m. on the day of the FOMC announcement for example. I am sure more and more traders in Europe and the U.S. are already working at night to monitor Australian and Chinese economic data, given the large potential impact on risk appetite, and the implications for global demand.

Danny Yong

Back to the question of how well you could trade the world from Asia, I guess that it is also a question of the critical mass. I believe Asia has everything in place to get it going on a larger scale – we already have world class global firms providing support in technology, operations and legal, a solid regulatory framework, and an experienced talent pool from global banks and hedge funds. It seems like one of the few things Asia is still short of is critical mass of capital managed from the region.

This also brings me back to Ka Shao's point that right now the large majority of our investors are all outside of Asia, which is somewhat ironic given the fact that a large proportion of global savings reside in Asia. Over 50% of global foreign exchange reserves belong to Asian countries. If Asian sovereign wealth funds and family offices were to invest more intra-Asia, it could over time allow the Asian capital markets to be less driven by global investment flows. At present, the bulk of assets managed in Asia are dominated by allocations from the West. As history has shown, when there is a crisis in the US or Europe, there tends to be capital flight from Asia, and this increases the volatility of the markets here. If you look at how Asian stock markets were affected by foreign capital inflows and outflows before and during the global financial crisis, one could argue that Asia was a lot more volatile as a result of the capital flows. With increased intra-Asian investments, it may allow Asian markets to be more stable in the long run.



Given that a lot of the global savings are here in Asia, should we not start financing ourselves incrementally, both through the sovereign wealth funds, as well as through individual savings? By providing funding not only to infrastructure and real estate, but also other different constituents of the financial system, like private equity and hedge funds, we can assist in growing and contributing to a larger and more sustainable financial ecosystem here in Asia. That could also help to reduce volatility as the region would then become less dependent on what happens in the West, and a lot more dependent on the idiosyncrasies of individual countries in Asia and Asian financial markets in particular.

Danny Yong

Matthias Knab **Guan, given your experience having been a CIO at a sovereign wealth fund, do you want to comment on these suggestions how to build and strengthen Asia? How would the sovereign wealth funds think about the suggestions regarding funding the local financial industries?**

Guan Ong: **Most of the sovereign wealth funds in Asia are relatively young institutions. If we went back ten or fifteen years and look at the investments of the Central Banks, we would see that most of them would mostly be invested in Treasuries. The risks inherent in corporate bonds were considered too high at that time for these institutions and besides, there were no portfolio "buckets" to categorize their non Treasury exposures. One of the reasons not to be involved outside of Treasuries was a concern that if an Asian Central Bank were to invest in the currency of another Asian country and if a negative event happens, then the investment decision making process will be compromised by politics? Do you sell or hold the security and the underlying currency of a neighbor in trouble? How do you react to large currency fluctuations? That tends to be a bit of a problem because these investors tend to be very large holders.**

That was over a decade ago and it's a different world today. Sovereign Wealth funds may still be related to the Central Banks but they can make decisions independently, sometimes within an agreed framework, but they are now able to invest globally and across risk classes. The fact that SWFs are now commonly accepted as an investment vehicle rather than viewed upon from a political perspective helps a lot too. This is one of the more significant changes in mindset that has spurred the interest in creating new SWFs in the region. This is certainly a positive step forward. One of the reluctances very early on to be involved outside of the US Treasuries was a concern that if a central bank in Asia were to invest in the currency of another country and if something happens to that, then what do you do? Do you sell or hold the currency? How do you react to large currency fluctuations? That tends to be a bit of a problem because these investors tend to be very large holders.

Over the years, the risk appetites have evolved. SWFs and central banks need to diversify their risks and therefore will invest more globally. However, any policy changes, such as asset allocation, is not something they can do quickly. But once they have gone have past that stage of investing globally, investing in assets with a higher risk profile there will be a natural progression but the risk assets are distributed or diluted into their larger asset pool which is a desired effect. However, these large institutions have a practical constraint of needing markets of a certain minimum size to ensure that their investment efforts are meaningful.

Guan Ong

While some are already active in Asia, I believe it is just a matter of time before more Sovereign Wealth Funds start getting more involved with Asia as the Asian markets continue to grow and the pressure to finance assets across the board in Asia becomes more visible. The bottom line is that Asia is an area where they have to be invested.

Lee Ka Shao

If you analyze how some of the other global financial centers got started, there is an element of luck included. What I mean by that is not the randomness of rolling dice, but rather the combination of preparation and opportunity. In that sense, I think London was lucky because its rise as a financial centre came about during the time of the Cold War, with the rise of the Eurobond and offshore dollars markets, where Russia and its allies with all their dollars needed to go invest or deposit somewhere except in the United States, and when the Euro bond, Euro Dollar markets, the LIBORs and everything around it was created, a whole new industry with London as its centre was established.

Maybe at this time, it is up to us here in Singapore to be prepared and continue setting up the infrastructure and the products. But we need a leap of faith both by Asian and Western asset owners to commit to Asia through local managers. Of course, a lot of us are still relatively small, but that does not mean that we are not able to capture the opportunity set both within and outside of Asia.

Roxanne Davies

In the past, Asia lacked the depth and the liquidity in markets, so, they were not really able to take on big and sustainable inflow of assets. All this has improved substantially over the last few years, but there is room for more expansion. Globalization has the side effect of contagion, amongst other things. Correlations and relationships change at the most unforgiving times for portfolios. Allocation to managers, for what has been largely and often, beta, is not a winning bet for families.

But execution of a theme internally still remains a challenging area. For example, if you wanted to protect your currency risk or buy assets in creditor countries such as Norway or Singapore, depth of the market isn't necessarily in par with the potential demand. In the same line of thought, investing in the Middle East to play long oil was very complex because of the internal infrastructure and regulations of the individual countries.

The hedge fund industry emerged in the U.S. and the U.K. because these are large financial markets with, at the time, favorable regulatory environments for the legal and tax structures.

Coming back to the question of location, I am a believer that even with the best of technology; you will not maintain a sustainable advantage unless you are local. Of course the importance of that varies depending on the strategy. I guess the day to look forward to is when the New Yorkers or London crowd would be excited to hear Danny announces that Dymon Asia is going to open an office there.

Roland Schwinn: Actually, technology does also play a role here. For example we have customers in Asia and even in Australia who have co-located their servers in Europe, which means they are trading in microseconds in European markets. On the other hand, it is the same now in terms of information flow. Our mother company, Deutsche Börse Group, offers a service called 'AlphaFlash' which provides macro economic data and news in micro second to customers in Asia and the rest of the world. So, this facilitation by putting co-located servers into data-centers somewhere else in the world has significantly changed the trading world.

Roland Schwinn

In addition to that, new bridges are being built. For example, we have built a co-operation with the Korea Exchange, the Eurex/KRX Link, two years ago. We have a very successful KOSPI trading taking place in the Korean after-hours on the Eurex Exchange platform today. And another bridge we are building with the Singapore Exchange is, that we move our Singaporean access point into the SGX co-location datacenter, so that our mutual customers can use cross-links to connect to both markets.

So, these days it is less important where you sit in terms of information. You can have the information in micro seconds everywhere.

Matthias Knab **Roxanne, could you share with us some insights about what is going on in the family office world at the moment?**

Roxanne Davies: Family office investors usually have short, medium, and longer-term requirements to address. One issue that affects all of us is that we are obviously living in a negative to zero interest rate world, and inflation is high. That means that generally, we are in a wealth destruction macro environment. There is a push and shove about whether inflation or deflation will win out. And the scary scenario is inflation of necessities or desirables and deflation of the rest. That is the big challenge about how and where will you invest and how much cash do you keep, and where do you keep it? We have to deal with many uncertainties on the macro level, with some unprecedented moves from many governments.

As a result, many investors are focused on investing in real companies with real cash flows and pricing power, in order to have different types of return streams. Needless to say, it is not simplistic to find value there. We are working on a number of private deals here in Asia. I have been transferred here to help structure and further build out a wealth management consortium that consists of a trust company, an investment management platform, as well as financial technology firm, that enables us to operate with best practices in wealth management as we see it.

Roxanne Davies

Of course, we differentiate algorithmic trading and related strategies (which are location agnostic) from longer-term investments, but generally I believe the use of financial technology that works with or deconstructs data – an area that people now also refer to as Big Data – will be extremely important.

Looking back at 2008, probably the most common problems that family offices had was to really know where their assets were, to what extent they were exposed, not to mention how to get their assets back from a variety of counterparties and investment managers. That year, the trust factor deteriorated and many larger families moved into controlled asset structures. Managed accounts have become the preferred route for certain investors. But, you need a certain size for them, and the technology for things like data feeds, aggregation, cleaning data as well as the controls and balances such as three-way reconciliation. Investors want a holistic and detailed view on their portfolio, so they can better understand the risks as they define them.

Another expression of this trend to more control over the assets is the increase in internalized trading. With the dismantling of the prop trading desks, a lot of talented people can now work with families and help them process ideas and execute them properly. As family offices are generally on the buy side, the challenge is how do you actually go through every single opportunity and decide what you want to overweight or underweight, or how to execute, because execution is a key factor for success.

Roxanne Davies

Matthias Knab **Can you tell us more? Is this a fairly strong trend that family offices hire prop traders to do more internal trading?**

Roxanne Davies: I do see a lot more internally managed assets, both in managed accounts with external managers and internal prop traders. I have worked in many family offices, there are different archetypes and a lot depends on where the family lies in the lifecycle of their wealth, and what values they have. First generation entrepreneurs, as an example, want control of their assets or control of trading. It does not matter if the founder is from the financial sector and they understand it or not, these people are hands on, it is their personality, and those asset owners often do have internal traders or trusted relationships trading certain parts of the book.

Then there are the more passive family offices that have allocated out their assets. Both models have their pros and cons, but somewhere in the middle is probably where the larger family offices are going to lie, because you cannot do everything in-house efficiently. You can take out a lot from your cost structure by realizing that most managers cannot escape beta, and, in the long run, GDP is going to drive market returns – real growth or the right kind of growth is the secret to growing the portfolio returns. Sophisticated investors are likely to increasingly turn to specialists such as prop traders, but, with a certain level of control on them, to align interests.

Roxanne Davies

Danny Yong Roxanne, given that you have been here since August of last year: from an investor perspective, what do you feel Singapore is good at, and what is missing?

Roxanne Davies: We have been supporters of the Singapore hedge fund industry for a long time. Our family offices seeded at least two funds here that ended up becoming multi-billion dollar funds. At this point, we would be excited to see more investment managers out here. I would say that there are about 200 managers here that we sort of know of, but many of those are under the radar. Some of them are running capital for big families or they are independently wealthy themselves and trade mostly their own money, or they are somewhere between $50m and $500 million and perfectly happy with that size.

Singapore is good at identifying opportunities and building the infrastructure to capture those opportunities. We believe they are looking to focus on best practices in wealth management. A highly regulated environment is not always favorable for establishment of funds or businesses, as mentioned before, the US and UK allowed for a relatively lax regulatory environment, which is part of the reason why the fund business flourished. I would imagine some managers may feel that Singapore is not quite Hong Kong for research or information flow on companies. So by encouraging more action on the stock market, and looking for the right kind of growth there, it could be that more participation would happen here. Stability in rules and regulations is another thing that would attract longer term commitment.

Roland Schwinn

What I can tell from direct feedback of our customers worldwide, there is some regulatory uncertainty amongst market participants these days. A lot of different regulatory topics are being discussed in the U.S. and in Europe currently which can have effects on the companies' business models. We, being an exchange and clearing house operator, are closely observing the upcoming changes and are also preparing for this.

After the Lehman default, we have received a lot of requests from hedge fund looking for more safety of their invested assets and even to become their own clearing member and be more independent. So, we have reacted on this and last year Eurex Clearing has started to roll-out the so-called Client Asset Protection, a service which allows the segregation of customer's positions, margins and collaterals on a clearing house level. It means the client assets will be protected on a clearing house level - physically segregated. In the case of a default of a larger clearing firm, these funds can then be transferred to any other clearing firm within a short time.

In addition more clearing innovations will be rolled out in the near future, like Eurex Clearing Prisma, our new portfolio-based risk methodology and the extension of our EurexOTC Clear service by offering a CCP clearing service for interest rate swaps.

Roland Schwinn

Matthias Knab

What are some of the regulatory changes coming out of Singapore at the moment?

Mark Wightman

Regulation is one of the most common topics flagged by managers we talk to although we have to separate fear of what is coming, and still in discussion phase, with what we know about already. If you get under the hood a lot of it looks to have a decent overlap and we believe that we'll see regulatory and risk reporting co-evolve. The more standardization we see globally the better and this should benefit the industry. An open question remains as to whether the fund manager will do all the work internally or outsource to administrators or vendors.

When it comes to international regulations, the big headache seems to be FATCA, if you have U.S. investors, and we also have the recent CFTC rule rescinding the exemption for many non-US managers from registering, as well as AIFM in Europe. There have been a quite a few articles in the press saying a lot of Asian managers are not really considering the international regulations in enough detail. As Asian Managers, what is your view regarding these issues?

Danny Yong

Let me add here that my partner and Chief Operating Officer Willy Ballmann, and our Chief Compliance Officer address most of these regulatory developments. I actually see increased regulation as a net positive development. We are an SEC registered Exempt Reporting Adviser and are preparing to be fully licensed as a fund manager with the MAS. So to me these things are inevitable.

In the last few years, the MAS, being an engaging regulator, recognized the need to increase the level of regulatory oversight over managers conducting operations in Singapore. I think the new FMC rules are a move in the right direction and will bring Singapore to similar regulatory standards as Hong Kong. Maybe we have not yet attained the same level of regulatory stringency as the U.K.'s FSA or the US's SEC, but I believe that the regulatory framework in Singapore and in Hong Kong, with further refinements over time, are more than sufficient to satisfy the stringent requirements and expectations of global institutional investors.

Regulations have definitely raised the hurdle for start-up funds in terms of cost, and the question is what regional governments or maybe private institutions could do to help reduce or lessen the burden of some of these start-up costs due to the more onerous regulatory environment in which we operate in.

Danny Yong

In our firm, we have our Chief Compliance Officer, and we have brought on board a President who will also focus on these issues, along with our Chief Operating Officer, Willy Ballmann.

I believe it is no longer feasible to launch a fund with $5 million to $10 million of start-up assets. The threshold would be more like $50 million to $100 million today. And then the million dollar question is, how do newer managers out here in Asia get a seed of that size?

Starting a hedge fund has become a chicken and egg conundrum. In the past, the issue was more about a perceived lack of talent or experience, but these days, new managers tend to be traders from the global investment banks, sovereign wealth funds or other larger hedge funds, with years of experience and solid track record. So there really isn't a lack of talent in the region.

Danny Yong

Lee Ka Shao

Sometimes I wonder what is really behind the global push towards more regulation that affects the hedge fund industry, and it seems to me that in every financial crisis there is always a victim or a bad guy, and of course for many people this was the hedge fund industry in the recent financial crisis. I believe they miss the point, because the crisis started in the banking sector, but somehow the blame has been shifted to the hedge funds. Of course there were issues like Bernie Madoff, but even he wasn't really managing a hedge fund but simply a Ponzi scheme. If you do your home work and look at the critical factors around the crisis, they all related to or are rooted in the banking sector than the hedge fund industry.

Lee Ka Shao: For certain people it seems very attractive to be tall, dark, and handsome, and I am sure all want of us want to be that, especially if you are a start-up hedge fund. With all the changes in the industry, it seems to me that instead of just trying to fulfill one or two of the three factors may increasingly be insufficient – for example you just want to be handsome first and over time you grow to be taller and darker – it appears that now you need to have all three of the above traits, from day one. We talked about the costs, and you are not dealing with higher start up costs per se but all running costs have climbed higher, it's not only that the hurdles have been raised, they actually just did a quantum leap higher.

This goes back to my earlier point that a leap of faith is required from investors and institutions like sovereign wealth funds and governments, because increasingly only the large funds are able to fulfill the tall, dark, handsome criteria, whereas a lot of start-ups or younger funds may not and cannot.

Lee Ka Shao

Guan Ong I met a European administrator a couple of weeks ago, and they are spending huge amounts of time, effort and expense trying to keep up with the regulatory changes in the European fund industry. The cost pressure is therefore not only on managers but also to the service providers who need to keep up with what is going on. From a manager's standpoint, I agree with Roland's comments on what the MAS has done is good, moving up the bar overall with active industry consultation.

Matthias Knab **Let's talk about capital raising. We have two funds here that were seeded by European seeding firms, how has the capital raising been since then?**

Lee Ka Shao Going back to the earlier discussion, we recognize that savings in Asia are phenomenally large and driving most of the savings in the global banking system. But the history of Asians investing in Asian funds is not exactly stellar. There have been investments by the sovereign wealth funds, probably more into private equity funds. Most of the Asian money going into funds went to work through established Western institutions and there is no natural gravitation in the allocation of funds to the local managers in Asia. Our cornerstone investor is European, and our subsequent investors are from the West as well. We are looking for a change within the Asian SWFs and institutions where they start allocating their assets directly with Asian managers, some of which have now reached a critical size.

Over the last decades, the infrastructure of the financial markets has continued to grow and mature, and ultimately things boil down to allocate to fund managers in Asia, the people on the ground. With mature markets, it is like having a nice rocket or a nice weapon, but you still need a suitable person to press the button, and unfortunately too little has been done to encourage that person to rise up to the task. In Asia we need access to appropriate starting amounts of capital for as many potential Asian-grown and Asia-domiciled managers as possible, so that more of them can over time grow to an institutional size.

Lee Ka Shao

Danny Yong: Ka Shao brought up the term "luck" before, and he defined it as when preparation meets opportunity. I agree that at times, a lot does depend on luck. The critical mass is important, and in our case, we were very fortunate to have the $100 million seed from Tudor that brought us above that critical line. I would say that $100 million is that 'magic' number now required to really get going and get the awareness from the institutional investors that you need.

Another factor that comes into play here: the last three years have been challenging for a lot of strategies, not only in Asia, but globally. In this environment you can be a master fisherman, but it naturally becomes difficult or nearly impossible if there is a massive drought going on in one's respective strategy, because if there isn't any water and no fish to catch, how do you demonstrate your mastery? So, for the hedge fund and alternatives industry in Asia, it feels like it is partly a case of bad timing. The industry is looking to grow and we have abundant talent (great fishermen), but we are also stuck in a drought. At the same time and because there is no water at the moment (to continue the fisherman analogy), some investors from the West may not know the industry in Asia as well and do not want to take that leap of faith as Ka Shao has said, because they want to see your fishing score first, before they will invest.

As a young fund, you need to keep costs low, which is exactly what we did when we started in 2008. We started in an 800 square foot office, bought second hand chairs and tables, and focused on keeping our 'burn rate' to the minimum. We were fortunate in that the markets favored foreign exchange and macro in the last couple of years and therefore we were able to show some performance, plus the fact that we started above the $100 million mark, and were able to grow from there.

Danny Yong

It is key to demonstrate to investors that your firm isn't the proverbial "two men and a Bloomberg". Especially post Madoff and post the global financial crisis, the requirements to being seen as "investible" are tremendous. We regularly host investor due diligence meetings that can last two days or more. Investors announce their visit asking us to set aside a certain number of hours so that they can sit with all the different members from our various departments, and some tick every single box and others may tell you that they are fine with 47 of the 50 due diligence points, and they will come back in six to twelve months' time to see how we are doing on those remaining three points.

We did get a number of large investors and even though a lot of our growth happened in the last twelve to eighteen months, many of these investors have actually been monitoring us for the last two to three years. High quality long-term investors often monitor funds for quite a long time before investing. I suspect some didn't invest earlier because they felt that at that time, we did not tick all their boxes. So with their feedback, we continued to strengthen and institutionalize our business, adding to our infrastructure and our controls, to bring Dymon Asia up to globally accepted standards.

Danny Yong

David Dredge: Due diligence is noticeably more in-depth than it used to be, even for us as a very large institution with very deep infrastructure and experience, it is still a very cumbersome process and it takes time. So far we have had far more interest form U.S.-based investors than elsewhere. We do have investors coming out of Europe and Asia, but the U.S. has been a far more active market for us.

I have been in Asia a long, long time now. Asia is a unique place to try to raise money, partly because the wealth is very concentrated in so few hands. Most of the countries here have one major wealth holder - the government or its sovereign wealth fund/reserve manager. The funds are not spread out like you can see it in the west where you find a number of wealthy organizations that have experience allocating to alternative investment managers, including corporations, pension funds, insurance companies, institutional investors, etc.

Many of the countries in Asia do not allow investment outside of their country, other than for explicitly authorized organizations. For example, Korea is only just now opening up to allow institutional investors to invest in alternative managers outside of the country. So far, only Singapore, Hong Kong, and Japan have been broadly open for that. There has really only been one investor in China and only one in Korea, and even in the few open countries there are only a handful of sizable investors.

Obviously, the pool and the diversity will develop over time, and a large part of what a lot of us try to do is work with the policy makers in the region. For example, if I am in town, I will always try to spend time meeting regulators in Korea, Indonesia, Thailand, Philippines, etc. We talk and share idea on how they might draft their own regulations allowing their institutions or individuals to invest in alternative investment managers, for example. Just like a range of other things in Asia, these issues can take a lot of time.

David Dredge

Matthias Knab **Danny, you mentioned you feel like you're having to deal with a drought in the financial markets, which makes it difficult to "fish" or to put on trades. Can you explain and add some detail regarding this "drought"?**

Danny Yong Some of the markets have in general been a bit tougher to trade, both because of increased correlations, a high degree of randomness and volatility at times, and in some ways, the lack of discernible trends.

After the global financial crisis and the V-shaped recovery in the last few years, we believe that the next couple of years will see sideways trading and as such, will inherently be choppy markets. Given that the washout in Europe was not complete, we are still going through a process of adjustment that causes the global markets to be pulled in so many different directions. I never knew anything about the Greek or Italian parliamentary systems previously, but I think these days we all have to be experts.

The world has changed and maybe it isn't enough to be a great stock picker or equity guy, because the question is how does a great value investor do, when the markets do not reward value investing, at least not over the past three years? That is what I meant by a drought, the markets have not allowed you to demonstrate your skill because of these conditions. Of course, if you have a track record of ten years or more, then probably the markets will normalize at some point and you will be able to demonstrate your 'fishing' skills with results.

Matthias Knab **Tell us about any new products or initiatives you are working on? If you are not working on a new product in particular, you can also share with us your outlook on your funds and your markets.**

David Dredge: This Tuesday we launched our new fund, the Fortress Convex Asia Fund, which is a long volatility strategy looking to protect capital. It is not an absolute return strategy per se, we are trying to take advantage of volatility and protect our investors' capital around certain themes and create negative correlated returns.

Actually, what Danny called "drought" and what is driving most of these guys crazy is actually a great opportunity for us. The lack of volatility, the oddness of correlation, the constant influence of governments in markets, which more often than not revolves around suppression of volatility, not allowing Europe to cleanse, these types of things are exactly the sort of markets we look for.

So, we see fantastic opportunity in what we do right now and any number of areas in markets where imbalances, asymmetries and risk exists. It is interesting that my favorite theme and biggest concern is exactly what Roxanne touched on earlier, the constant destruction of wealth that is going on particularly in Asia where you have these significantly large savings pool suffering under what seems to be a persistent and perennial imposition of negative real interest rates. This, together with the long history of asset booms and busts, the bubbles out here and the appetite to try enhancing returns through leverage or structured products where in the end they are potentially taking on asymmetric risks for very little returns, these will be the driving themes for some time going forward.

I was just in New York speaking at a conference on volatility, there were about 500 investors there talking to eight or nine volatility fund managers. The entire theme of the conference revolved around how everybody was going to protect themselves from the next Lehman crisis. When it was my turn to speak, I said that I am not 100% certain, but pretty confident that Lehman is not going bankrupt again. The next crisis out there is probably something where you won't find 500 of us sitting in a room talking about it.

David Dredge

Everybody is still obsessed with hedging deleveraging and deflation risk, these are the themes we are most recently familiar with, however the destruction of wealth through inflation hasn't really been addressed in the main stream. That is one of the themes our fund tries to address.

Lee Ka Shao Most of the time, I am looking at the probabilities of events and I am betting whether they are underpriced or overpriced. Many different crises have occurred since Asian crisis in 1997 where most of us here today were trading throughout the crisis and many other events like SARs, birdflu, terrorist attacks etc. Amongst those, the global financial crisis in 2008 is the biggest crises thus far because of how governments and central banks kept changing the rules.

What has been traditionally profitable for my strategy and usually traditional macro as well is that when more often than not we are dealing with a relatively normal, uni-modal distribution with or without fat tails. When complacency or some anomalies are identified while markets are still trading right in the middle of the distribution, we will then buy medium or longer term cheap optionality in order to benefit when prices trade away from the mean of the distribution bell curve. That means that potentially we can have a windfall when a positive or negative fat-tail outcome materializes over time.

However with the intervention by government and central banks lately, we have morphed into price movements where the distributions are bi-modal with volatile "risk on" and "risk off" gyrations within a "government induced" range around the mean. In addition, we are also in an environment whereby the negative fat-tails in particular are chopped off by central banks globally with the "can continually kicked down the road" policies. Moreover, the positive tail is now promoted heavily via excess liquidity creation via QE and LTRO. Again, this means the distribution curve has an artificial chopped-off negative fat tail with a long positive tail encouraged. We need to appreciate this distortion in order to decide what events are worth paying for the right optionality.

Lee Ka Shao

We are not a volatility fund usually we are long gamma. What we have seen in the last five years across many products is that realized volatility spikes up for brief periods, only before crashing back quickly. Currently, implied and realized volatilities have reached really low multi-year relative and absolute levels. At the moment, we like to be long gamma and volatilities in some cheap risk-off downside trades, but it simply cannot be just because the trade is "cheap" in absolute terms, more importantly because we think we may be entering a period where the ability of the governments who are trying to deny the negative fat-tail from occurring can be severely challenged by upcoming events.

In this new, bi-modal world, a "risk off" is actually a very quick move to the left negative side of the price distribution (the left node of the bi-modal distribution) while a "risk on" is a very quick move to the right positive side of the price distribution (the right node of the bi-modal distribution). This is a very unsteady equilibrium that we will strive to capture, ideally by using short date options from under 1 week to 1-2 months tenure..

We might still position for bottom draw-down events in the "traditional macro sense" (e.g. the fat negative tail that has been curtailed by governments lately) where the situation warrants. However, increasingly such long dated optionalities are both expensive and potentially ineffective.

Lee Ka Shao

For example, who will know what may happen to Greece with their elections this weekend. We can have a view on it, which may then be dependent on developments in France over the same election weekend there. Or it can also depend on other central banks like China releasing data over the weekend and other political meetings and announcements that are going to happen in between those two dates. The conditional probability becomes very difficult to accurately assign when the binomial tree becomes larger and larger with too many possible outcomes over a longer time period under consideration.

Things get even worse when markets are moving to 'political noise' rather than economic or financial developments. The markets are clearly exhibiting ''Heteroskedastic'' behavior where the standard deviation of random errors is not constant when you regress it.

That means we learn to evolve and adjust with the changing environment where we position in optionalities from one week up to one month or two months, and no more the three months mostly used to be the sweet spot in our event identification and trade construction. If you succeed in a macro trade with anything above three months time horizon, then either you are a genius or you were very lucky, because the possible outcomes have now imply too many potential paths, which in the end means you'll have to spend a lot of option premiums to cover even some of the likely scenarios with poor ex-post break-evens.

Roxanne Davies: I think we all have a general view that going forward things are not going to be totally rosy. In some areas there are some exciting developments and technologies that can help certain sectors. For example, advances in the healthcare biotech sector can reduce medical costs, or you look at other outliers like whether natural gas is a game changer or not in the commodity world. These are questions or themes, but nothing you can easily put a trade on.

We also look at ad-hoc investment opportunities. We are invested in equities, we believe in value trading, we have macro traders looking at currency or other opportunities opportunistically. Again, we are just again trying to keep our head out of the water to the extent that we can, because the math does not work in favor of preserving and growing capital in these environments. Therefore, if we achieve a single digit returns on an annualized basis we are happy, especially on a risk-adjusted base. Beyond that, we are focusing on building and developing companies or becoming partners with private companies that have pricing power, cash flows and a stable management.

Roxanne Davies

Danny Yong: I agree with Roxanne's point of wealth destruction or financial repression, this is likely to be the theme for a long time. I also want to take one step back and look beyond the surface. I believe the driver for this financial destruction is actually more a function of society renegotiating the social contract. I believe that the wealth gap globally has become too wide. Social media and new technologies have given the man on the street a voice. Since the Jasmine Revolution in the Middle East, the voice of the man on the street is getting louder and louder and this has in turn led to changes in governments, in taxes, and in the regulations on capital flows and foreign ownership.

In effect, a lot of regulatory changes the world is moving towards are very socialist in nature. You could take the extreme view that regulations are all meant to punish the "bad guys", and of course these 'bad guys' are the rich, the banks, and unfortunately also includes hedge funds to a lesser extent. The world seems to be moving in a new direction where governments in different parts of the globe are no longer ruling for the elite, but for the majority, as they should. This adjustment will dictate capital flows from certain countries, along with regulatory changes. Some countries will come under pressure where for example, property prices are going up too much, because they have a very open market. As an example, I believe that Singapore will be forced to impose further macro-prudential policies on the residential property market to restrict or stop capital inflows to that sector.

There is a high chance that we will see tax changes. Financial transaction taxes will be introduced in Europe and some other countries very soon. The fact is that all of us who make investments will be affected by all these changes. So at the end of the day, no matter whether you are a value trader, long/short equity manager or macro investor, you will need to monitor both the long-term and care about the short-term news too. Today, in some ways everyone has to follow the day-to-day developments, because the long-term is a moving target, given the fact that short-term keeps changing and evolving.

Danny Yong

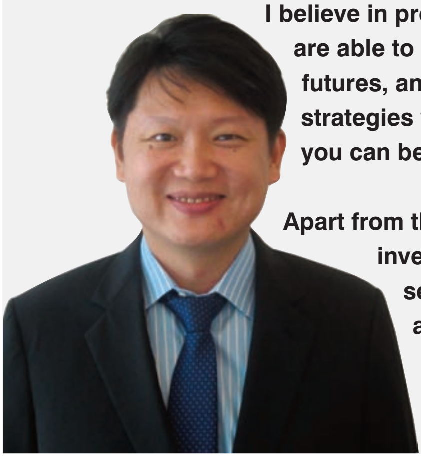
At Dymon Asia, this means we differentiate ourselves by both being able to spot the longer term trends, while at the same time staying nimble and opportunistic to capture the shorter term moves. In this environment, and at each point, our brain needs to recalibrate and adapt to every new input out there and decide how the odds of the next most likely outcome has changed, and try to make money from it.

Mark Wightman

Let's talk about risk and risk management from the perspective of a hedge fund manager. What information do you use as a portfolio manager to manage your book and different exposures? And secondly, what information do you supply to your investors? We see some cases where a client wants one thing for investor reporting, such as VaR, which is then largely ignored for investment decisions as Greeks or other outputs are used. VaR itself gets a lot of press and can be seen as a false comfort blanket for some investors if not fully understood.

Given we have such seasoned experts in the room, I am interested in what does risk means to you and what investors should really be looking at from a practical standpoint. Last year I came across a manager who told me they wanted real time VaR for their investors. Who knows what they would do with that information.

Danny Yong: There is certainly a case to be made for looking at real time VaR, especially if you have high turnover and big position changes. But even if you provided real time VaR to investors, unless they have real time redemption capabilities, why should it matter? Also, these investors will often have 50 or more investments, will they be looking at each one real time, how would they structure all this and organize their decision process?



I believe in providing transparency, and we go the extra mile to be as transparent as possible. We are able to do that also because our strategies are relatively simple. We trade mostly FX and futures, and keeping it simple does matter. Our mindset, which works well in the space and strategies we trade in, is that if you have nothing to hide, then you should be as transparent as you can be.

Apart from the risk considerations, another important aspect of transparency is that it allows the investors to determine whether the manager is doing what they said they would do. We seek to be disciplined in keeping to hard stop-loss limits. We have very clear triggers, and these are all essentially transparent to our investors as well.

Danny Yong

We look at VaR more in terms of a general monitor of the trend of our overall portfolio, whether we are taking too little risk or too much risk, but we tend to keep risk monitoring straightforward and simple for ourselves, as well as for our investors, by focusing on managing actual P&L drawdowns rather than just managing VaR alone.

Guan Ong

We do not use the VAR, because I do not think that VAR is an effective measure of risks for credit funds, as our markets are not as liquid compared to the others and besides we feel that VAR's backward looking methodology has limitations. We are basically a bond shop, so the old fashioned risk factors such as those related to interest rate, duration, DV01, concentration, leverage etc are more appropriate for us.

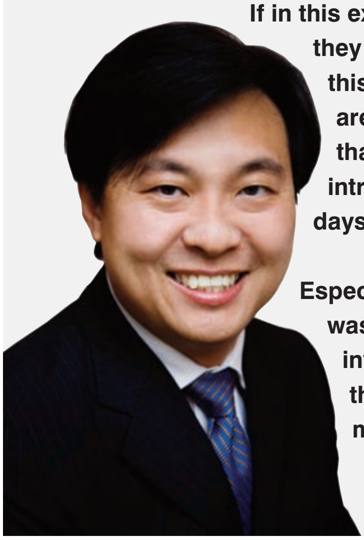
We provide our clients with a detailed report equivalent of the duration dollar bucket which shows where our duration risks are concentrated in the relevant groupings. In addition, we also provide other risk factors such as leverage data, gross and net figures, DV01 data and so on. We have implemented our own calculations and we provide both the standard DV01 number as well as our own adjusted DV01 number which is adjusted for our high yield allocations. DV01 is effective for AAA high grade bonds and applying this blindly to a bond portfolio with high yield allocations may be misleading. For that reason we adjust it for the high yield portion.

All reporting has to be completely transparent, which is something clients have asked for anyhow. In addition, when using customized reports, we have to make sure the client knows what those numbers mean. Even if you have to spend some time with your client to explain your report, this is surely a good use of your time.

I think the main point I am making here is that it is more important to produce a risk report that reflects your strategy rather than just using a standard report from someone who uses a template where the output data is produced to fit the report. . If the templated report fits the requirements, this would be great. Convenience has its advantages especially from a client perspective where they have to track and compare many funds. At the end, what matters is simply that the risk report should not mislead and includes the salient risk factors or portfolio data for the client to get a good sense of where the risks are in the portfolio.

Guan Ong

Lee Ka Shao: I think there are two things that I want investors to understand in terms of reporting. One, it is critical for them to understand the investment or position risk rather than trying to measure risk per se. I want the investor to understand my views, my themes and what kind of positions I choose to construct the trade on. For example, I could have the view there wasn't a QE3 and that the market is overpricing especially equities, so I have specific downside equity options and a certain FX trade on.



If in this example if it turns out I was wrong, as everything was shared upfront with the investors, they will better understand what happened to the portfolio and why we were up or down by this amount. I think that is more important than following a very mechanistic way where you are looking at VaR and say all is fine because it stayed within certain limits. Also remember that VaR is basically a mathematical calculation using historical volatility data and also the intra asset correlation. A lot will depend on what period you use, is it 30 days, 90 days, or 180 days beforehand.

Especially now we have a very low volatility in the environment, it is probably at 1/6th of what it was a year ago. Does that now mean your assets are more or less at risk now? Sure, a lot of investors demand this VaR, but again in my view we as managers should rather make sure they understand the investment and position risk rather than trying to focus on the measurement of risk.

Lee Ka Shao

David Dredge Also for our strategy, VaR is not relevant. VaR is a measure to estimate the chances of something happening outside of the norm. All I am doing is to exactly protect people from what happens outside of the norm.

We use our own customized volatility stress analysis where we also try to model the annualized potential burn rate that is built into this long volatility portfolio. Most risk management is trying to measure that surprise event whereas for us the important thing to measure is how much cost is embedded in the books if nothing happens for some time? This time factor is a particularly difficult element to measure under most normal risk management philosophies, but that is really what we do.

One aspect I wanted to point out is that I am very strict and believe it is very important that the same risk we use to manage the book is the same risk our risk management, the Chief Risk Officer uses, which finally is the same risk we show to investors. They have to be all the same, in my view.

That does require a certain education like Guan was saying. The investors really have got to understand how we are looking at dealing with these numbers, because we may do things differently than other firms.

David Dredge