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Opalesque Round Table Series '12

MONACO

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Editor's Note

Substantial demand for hedge funds and alternative investments

Monaco has a small, but very deep wealth management component with very sophisticated, institutional-like family offices that are familiar with of the full scope alternative investments. Some of them allocate all of their funds to third party managers, others manage assets internally. Current figures suggest that around 300-400 billion Euros are being controlled from Monaco, with a substantial demand for hedge funds and alternative investments.

About 34 banks operate in Monaco, a significant number by any measure for a country of 38,000 people – however, consolidation may be on the horizon. On the other hand, the number of independent asset managers has expanded enormously over the last decade -ten years ago, there were three firms in existence – now there are 46. In addition, a few hedge funds have moved to Monaco, most recently including Tyrus, a multi-billion dollar international hedge fund, which shifted most of its staff around the start of April.

All About Risk

The Monaco Roundtable dealt with important aspects of wealth management, private banking and how to run investments post (or pre?) crisis. At the moment, a lot of investors believe they are acting or positioning themselves as risk averse, but in fact upon closer examination, most of them are taking greater risks than they believe. For example, by adding to duration risk or credit risk. By trying to avoid risk, new risks are also being created. This is one of the major problems in private banking.

By trying to stay away from equity market risk, an increasing number of investors get involved with risks they have no idea about; the quest for returns is pushing them outside of their habitat into high-yield investments, emerging markets, local currency bonds, and a variety of different assets classes whose risk-rewards are probably outside of what they are expecting. Many of those investments turn out to be overly complex relative to what a private investor typically prefers – such as, no-lose or guaranteed or other structured products, reverse convertibles etc. Aside from pricing, problems surrounding those investments like liquidity, counterparty risk, credit risk etc. can be far greater than they had envisaged.

In addition, the Roundtable discussed:

• Real risk or overstated risk? If something has been on the front page of the FT, it is surely known about 27 times over – has the time come to reverse the process?
• Is 30% cash "secure"?
• Who has been around long enough to remember the bond bear markets of the 80s?
• Do high net-worth investors trust the mega hedge funds?
• Is the asset concentration in the managed futures industry healthy?

Time: The Lost Horizon

Today, many investors have lost the aspect of a time horizon. Too many people believe that they can follow the FT or CNBC, and make a decision as to what their asset allocations should be.

Contrary to that, Buffett's time horizon is always different to that of the market. When he prepared to go to cash in 2006, he was willing to wait three years or more. In 2008, he bought the Swiss Re convertible equity, at a time when nobody else would touch the company, demonstrating to his strong investment convictions and willingness to wait.

Investors need to diversify in terms of time as well as assets – the imperative is to have different, well thought-out time segments within a portfolio. Until investors have a time horizon that looks farther into the future than next weekend's Greek election, we may continue circling around the same issues.

The inaugural Opalesque Monaco Roundtable, sponsored by Salus Alpha and Eurex, took place on June 18th 2012 with:

Cover Photo: Monaco

1. **Anthony Torriani,** CEO, Monaco Asset Management
2. **Jim Cone,** Partner, Efficient Capital Management
3. **Kathryn Kaminski,** Ph.D, CIO and Founder at Alpha K Capital
4. **Marc de Kloe,** Alternative Investments Manager, ABN Amro Private Banking
5. **Michael Browne,** Martin Currie Investment Management Ltd
6. **Oliver Prock,** CEO and CIO of Salus Alpha Capital

The team also discussed:

- **Who started the first UCITS hedge fund?**
- **What products can be offered now in Europe while AIFMD is not really finalized?**
- **What is the great deceit that exists between bonds and equities?**
- **How, according to behavioral finance, are investors affected by framing and home bias?**
- **What is "Crisis Alpha"?**
- **Which private bank has recently increased the hedge fund holdings from 5% to 8%?**

Enjoy!

Matthias Knab
knab@opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Jim Cone, Michael Browne, Marc de Kloe, Kathryn Kaminski, Oliver Prock, Anthony Torriani, Matthias Knab

Introduction

Oliver Prock
Salus Alpha Capital

My name is Oliver Prock. I am the CIO of Salus Alpha Capital. We are a quant shop with over 10 years of track record. We are located in Liechtenstein and run six in-house quantitative strategies based on in-house research and models. We are focusing mainly on quantitative derivative strategies as of now and manage approximately 1 billion US$.

I graduated from Vienna University of Business and Economics with an MBA and gained experience in different investment fields such as financial engineering, product development, trading and sales. I started my out career working for a CTA, and later on I was in charge of derivatives and structured products at Raiffeisen Zentralbank AG.

Before becoming CEO of Salus Alpha, I worked at Erste Bank, where I was responsible for the development and the management of Erste Bank's alternative investment products. I have gained over 19 years of professional investment experience working for banks and investment companies in Austria and abroad.

In Monaco we are focusing mainly on institutional investors and since it is a very interesting region we are actually thinking of a rep. office here.

Kathryn Kaminski
Alpha K Capital

My name is Kathryn Kaminski and I am the CIO and Co-founder of Alpha K Capital. We are a new thematic fund focusing an offensive approach to tail risks. Our fund focuses on selecting "crisis alpha" generating strategies and managing a portfolio of managers which can provide non or negatively correlated relationships with most traditional and alternative portfolios. The firm started in 2012 and we are currently looking into raising capital for our US fund which we expect to launch in the near future. We will also provide bespoke solutions for institutional clients who want a structured and strategic approach for dealing with tail risk exposures.

My background was originally academic. I obtained a PhD from the MIT Sloan School where I did my doctoral thesis on financial heuristics and stopping rules with Professor Andrew Lo. I was first at the Stockholm School of Economics then I left academia to work for RPM, a fund of funds in Managed Futures. Despite leaving academia in 2008, I still lecture at the Stockholm School of Economics in the area of derivatives, hedge funds, and investment management. I also teach a course at MIT Sloan School in the Sloan Fellows' Program. Today, I publish educational and research based articles on alternatives. In my research, I coined the phrase "crisis alpha" in articles published for the CME's education group.

Jim Cone
Efficient Capital Management

My name is Jim Cone and I am a partner with Efficient Capital Management. We are based out of Chicago and have been operating since 1999. Our exclusive focus is to bring managed futures and CTAs to institutional investors including family offices, pension funds, and endowments. Over the past 25 years, independent academic research (Ibbottson 2006 and Commonfund 2012), continues to emphasize that any well diversified portfolio should include exposure to managed futures and CTA's. Not only because of their uncorrelated return distribution compared to other asset classes, but because of the volatility reducing benefits they add to a diversified portfolio.

I have grown up in the futures industry, starting my career 25 years ago with Cargill, one of the largest commodity trading firms in the world. I worked on the exchange floors in Chicago and New York and then spent ten years in London. More recently I spent ten years working for proprietary investment group / family office based in the Bahamas. Nine months ago I joined Efficient Capital Management in Chicago as a partner.

Efficient is unique in the fact that we currently allocate over $1.6 billion to 40+ CTAs exclusively through managed account structures which gives us full transparency and liquidity. We also assist in managing customized portfolios of CTA's for private institutions and family offices who desire to create their own portfolio and get efficient exposure in the managed fututures CTA space.

Marc de Kloe
ABN AMRO Private Banking

My name is Marc de Kloe. I am working for ABN AMRO Private Banking in the Netherlands. ABN AMRO Private Banking is part of ABN AMRO Bank N.V., an independent bank with Dutch roots reaching back as far as 1720. Servicing well over 120,000 clients through our domestic and international offices in more than 10 markets worldwide, ABN AMRO Private Banking offers a full range of banking, financial & estate planning, and investment services. I work within Private Banking International where amongst others we service our clients' needs with respect to hedge funds. Over the last three years I have been rebuilding ABN AMRO's alternative offerings, where we have gone from essentially zero exposure to hedge funds to over EUR2bn.

I have been able to use my experience of operating in many jurisdictions and seeing what does and does not work there. You need a multi disciplinary transversal approach to develop an integrated private banking solution. As a result, we have tried to improve on what other private banks have been doing. I realized that the approach that many private banks had taken was still very much an investment management approach to selecting funds. However I recognized that for alternatives, this approach needs to be strongly complemented on the operational side, similarly to what you do in a due diligence of a private equity acquisition.

Within ABN AMRO Private Banking, we have been able to beef-up this approach and team over the last couple of years and we are getting to a stage, now, where we are rolling out our product offering not only in the Netherlands but also other countries as well. So, although I am based in Amsterdam, I am operating globally. As of this week, our CIO has called to increase our hedge fund holdings from 5% to 8%; I think it is quite a good development for the industry. So, now we have to make sure that investors follow-up on this.

Michael Browne
Martin Currie

My name is Michael Browne. I am a director at Martin Currie, a 130-year-old global equity institution based in Edinburgh. Our main business is active equity management, both long-only and absolute return. This is made up of Global, Asia, GEMS and other regional mandates. I work specifically within Europe and have being investing in European equities now for 25 years and in the last twelve exclusively as a long/short manager.

Martin Currie follows a fundamental approach to equity investing. Though there are small differences between investment teams, what binds us together as a firm across all geographies and strategies is our global research process. It's very much focused on companies - a fundamental, bottom up process and very cash driven in our stock picks. We think the alternative investment framework works best in developed market such as Japan or Europe, whereas for Asia or for individual Chinese shares we take a long-only approach

Anthony Torriani
Monaco Asset Management

My name is Anthony Torriani, I am the founder and principal of Monaco Asset Management. We are an independent wealth management firm based and set up here in Monaco about ten years ago. We manage money for principally large families, family offices, and a few institutions.

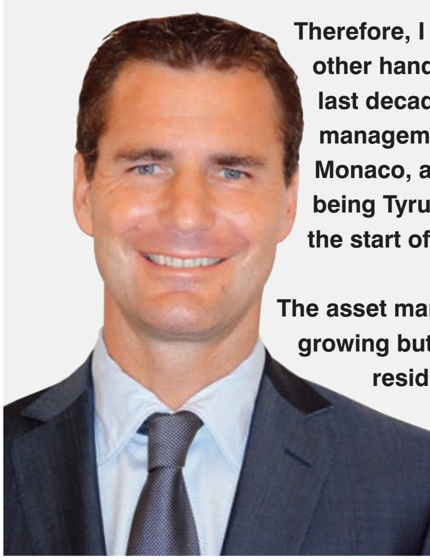
We are multi-asset and multi-jurisdiction. About 80% of our $2.5 billion under management is managed in-house where we invest ourselves in various instruments and markets, and 20% is allocated outside to hedge funds. We are very interested in what goes on in the hedge fund asset class because it affects a lot of what we do internally and externally. We use hedge funds and also CTAs for our external allocations.

We are a fairly flexible organization in the sense that we have fewer clients but with a higher average size than comparable firms, which means that we can pretty much invest in any asset class. This is often a limitation in private banking.

Matthias Knab **Tony, you are based here in Monaco, can you tell us more about the financial and asset management industry here?**

Anthony Torriani: Monaco is a fairly small financial jurisdiction. The banks here have about 83 billion Euros under management, mostly from larger multinational banks or within private banking. However, I believe that this sum significantly understates the amount of money that is being controlled from here, as besides the banks we also have a good number of family offices that are operating out of Monaco. We internally assume about 300-400 billion Euros are being controlled from Monaco, but outside the Monegasque banking system through subsidiaries or affiliate firms in places like Switzerland or Singapore for example. Monaco has a small but a very deep wealth management component with large and very sophisticated, institutional-type family offices that are very familiar with every type of alternative investment.

We have around 34 banks here in Monaco, but I would say that five or six of them would dominate the system with about 80% of the asset base in aggregate. Apart from those are the smaller niche players, but obviously, for a country of 38,000 people, 34 or 35 banks could be a few too many, so I would expect a continued consolidation to a smaller number, notwithstanding the fact that many of them are units of European banks which are having their own difficulties, so maintaining a presence in Monaco may not be part of their long-term strategy.



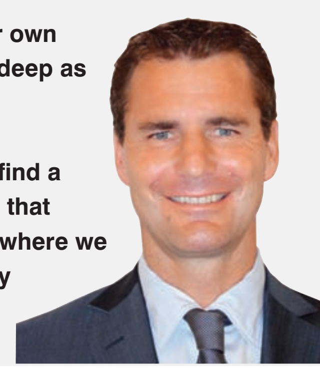
Therefore, I would expect a significant reduction of the number of banks here in Monaco. On the other hand, the asset management business has really been expanding enormously over the last decade. When I started my company ten years ago, we were the third independent asset management company in the country. Today, there are 46 asset management companies in Monaco, and they keep growing. We have also seen a few hedge funds moving here, the latest being Tyrus, a multi-billion dollar international hedge fund, who shifted most of its staff around the start of April.

The asset management industry in Monaco is vibrant and growing; the banking industry is also growing but at a very slow pace. Another trend we see is a renewal of interest in taking residence in Monaco, probably as a reaction to the macro economic developments worldwide and particularly in Europe, and because of the security and fiscal advantages of Monaco.

Anthony Torriani

Matthias Knab **What is the role of alternative investments for the banking and asset management industry in Monaco?**

Anthony Torriani: If you go to the different banks in Monaco, they will probably offer you their own internal fund of funds or structured products. On that side, the domestic industry is not very deep as the investments are really done at the head office and not much is decided from Monaco.



On the other hand, the family offices manage directly and internally. This is where you really find a professional and sophisticated investor base. I have a lot of exchange with them. I might add that during my career I have worked in Switzerland, in research and in fund-of-fund management where we did a lot of research on hedge funds. From that perspective, the teams at the very large family offices here have nothing to worry about when it comes to their level of sophistication.

So there is a substantial demand for hedge funds and alternative investments here in Monaco, but the industry is also very discrete and you have to find them, because those family offices won't publish their names. Summing up, there is a significant amount of assets invested from Monaco and it is a very vibrant place to do business for hedge funds and asset managers alike.

Jim Cone Before I came here, I spent some time on the website of Monaco Asset Management and found it very transparent, listing the 48 asset managers and boutiques. Do you find that the family offices here are more interested in working with an independent asset manager like yourself, rather than with the international or private banks where a foreign head office puts together the investments in the end?

Anthony Torriani Over the last five or six years, our firm has grown quite a bit through allocations from the family offices who for example could have been over-invested perhaps in alternatives and they wanted somebody to do a more traditional-type of asset allocation for them. Given their sophistication, these family offices are appear to be getting interested in independent asset management rather than traditional private banking and/or buying structured bank products.

Matthias Knab **Marc, you have rebuilt ABN Amro's Private Banking's alternative investments offerings. Do you want to share with us how you did that and what type of products you are offering now?**

Marc de Kloe: I actually find Anthony's comment quite interesting, because we have seen something a little bit different happen in the Netherlands, where we see some of the smaller wealth managers and I suppose family offices who got somewhat burnt by alternatives or hedge funds over the last few years. In some cases this was probably because they did not have enough resources allocated. I am interested in finding out a little bit what your investors' experiences have been here as well, because although they may be sophisticated in terms of the big picture, in terms of having the dedicated hands-on resources is a bit different and that is what we really notice in the service that we are trying to provide to our clients. We recognize that from ABN's perspective even larger family offices with significant assets treat alternatives the same way they treat long-only, but do not allocate the same resources for an asset class that is resource intensive.

We have realized in particular that operational due diligence requires specialist skills that not many people have, so we have put additional efforts into this area. Not many investors have the resources to do this.

So, that is one area we know is a real problem, but also in trying to find the right investment vehicles and the right solutions as well. I think one of the big failures of most product providers and people who structure investment vehicles is that we have this whole open space in trying to understand which investment vehicles are the right vehicles for investors, and very few people actually understand the needs of the onshore private bank.

Marc de Kloe

Anthony Torriani: I agree with you entirely. What we did at Monaco Asset Management was set two joint venture deals with fund groups to buy their research and advisory services. That means the bulk of the research, operational due diligence etc. is done for us by two different large hedge fund specialist firms.

The second aspect is that, as I mentioned, the leading banks here in Monaco are subsidiaries of multinational banks. They don't have their own investment staff here but sell the products that are created at the head office. If a family offices based in Monaco is looking for expertise in a certain area, they need to go somewhere else, because most of the bank units in Monaco do not have that. The larger family offices here do what we do, i.e. set up joint ventures and buy in a lot of independent research.

Anthony Torriani

Marc de Kloe

One of the problems we face as a larger bank is to communicate what we do to the network well, which is always more difficult in any large organization. For us, this message is: we have designed the product and the service – please use it. This is certainly the harder part and we recognize that advisors, particularly in the private banking environment have historically always felt responsible for exactly explaining the products they select and sell to clients. The bank's focus is to make sure the advisors use the approved funds or come to us for advice, and formulating and keeping the key messages understandable. For some products and services this is easy, however the broader your offering becomes, this becomes more challenging as it also gets more technical.

We actually want to help advisors to understand that they do not need to be the specialist for all products anymore and that they can actually call the specialist team and ask, "hey guys, we have a client, he is interested in a particular service, please can you talk to them?". We see advisors are capable of advising on a certain product range, and that when it comes to our whole service offering, the task can be also compared to "matchmaking" business, putting the clients together with the product specialists, as opposed to the local advisor always and exclusively giving the client dedicated input and help.

Matthias Knab

Let's look at managed futures and CTAs for a moment, as there is a renewed interest in this asset class at a point in time where a lot of investors are a bit shy to add more equity or bond risk.

Jim Cone: The recently published NACUBO-Commonfund Study of Endowments looked at the percentage of alternative investments held by endowments, pension funds, and family offices. Even I as an industry professional was surprised to have seen the allocation to alternatives was up in some cases over 40% or 50%. This study was published in March 2012 and examined the contribution of managed futures to an institutional portfolio. According to their analysis a good exposure should be between 5% and 15%.

Like Anthony, we also find that family offices are becoming more sophisticated through their own research and through working with boutiques like Anthony's and saying "look, we understand this asset class, and while we want to be invested in equities and in bonds, we wonder what will happen should there be a correction in interest rates? How do we get exposure to true alpha versus beta?"

With the greatest respect to the hedge fund industry, we all know a large amount of that return is beta, and on top you may end up with a lot of counterparty, credit, liquidity, valuation, or transparency risk. Managed futures are true alpha, opportunistic, they can be directional long or short, and can trade across all asset classes.

Jim Cone

Oliver Prock: The interest and the market for managed future varies a lot according to the geography or region. The NACUBO-Commonfund Study focused obviously on the U.S., where you have a broader proliferation of managed futures and a better understanding about the strategy on the investors' side. I am Austrian, and also in Austria we do have a lot of CTAs and the pension funds do understand them. Also in Switzerland you can find investors with a good knowledge on managed futures and CTAs and Sweden as well can be compared to Austria in that respect, but in a lot of other countries like Germany or Southern Europe, investors' understanding can be more difficult.

The problem in Europe in general is that a number of institutions jumped on the fund of funds wagon rather than building up their own resources and know-how. This was their first mistake. By now we all know the fund of funds model is kind of under siege or disappearing. Many of them are taking on new business models like becoming a multi-strategy shop or whatever model it will be.

Managed futures benefited from the fund of funds space, because they had often included an originally small allocation. Of course, it turned out that this allocation should have been bigger, because managed futures turned out to be the only strategy that proved everything they said since the 70s, even during 2008 and afterwards, which the other strategies did not.

Strategies often do have a certain lifecycle they go through, but not managed futures which is in a growth mode, also helped by Kathryn and her great papers.

Still, the industry globally needs more education. As we had discussed before this Roundtable at lunch, one of the issues is that the language of managed futures is to a certain extent different from the language of general finance. Managed futures practitioners communicate in a specialist language, the terminology is different and what's really needed is that more institutions build up more research in-house. But we are unfortunately at a certain point in the business cycle where a lot of investors, e.g. pension funds, are actually reducing resources. Should they run into a problem down the road because they don't achieve the target return, I fear that some of them may have an attitude like "well, it does not really matter, we just lower pensioners' target rate to what we are getting from the market."

Oliver Prock

Kathryn Kaminski: Education in the area of managed futures can be divided into phases. Phase 1 is about understanding the basics of the space and phase 2 is about understanding the diverse universe of strategies in the space and how to use them in a portfolio context.

Prior to 2008, many institutional investors were uninterested in managed futures. Only a small number of investors were comfortable with the space. Post 2008, investors saw the potential in the space and they began to invest focusing mostly on the "brand name" funds and mostly if not only on long term trend following. Investors began investing in these strategies moving the industry into phase 1. In my opinion, I think that we need to move into Phase 2.

There are some issues with "brand name" managed futures investing. For example, if you take a look at the current positions of most of the large asset managers, they have around a 70-80% correlation on a daily basis. This may not be a problem if you diversify with other strategies. In fact, around 90% of asset flows into managed futures strategies has gone into the largest funds. The big are getting bigger and that is something that many people are concerned about. Although when you talk to each individual "brand name" fund they are not concerned – I think this is something we need to continue to challenge and look into. I think that further education in the managed futures space can lead to capital flowing into a more diverse set of strategies helping alleviate these some of these issues.

Kathryn Kaminski

Anthony Torriani How much assets are in the Top 10, and are those all trend-followers?

Kathryn Kaminski Almost all of the top managers are long term trend followers. The strategy is one of the few in the space that can be trade in substantial size with certain constraints due to issues with capacity. As in any strategy, market impact is an important issue and capacity constraints are the least restrictive in the financial contracts which may give these larger managers a larger slant into financial futures.

Jim Cone: At the moment, managed futures are the fastest growing investment class in the entire hedge fund and alternative investment space. The aggregate AUM is now at $350 billion.

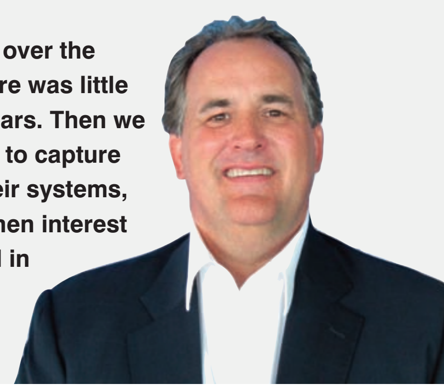
The largest managers get into AUM situations where their positions by default, are going to be in the largest markets such as interest rates, bonds, forex and the stock indices as this is where they can get their position size placed in those instruments while staying in the long-term trends. This served them very well specifically in 2011. The large managers stayed in UK Gilts and US treasuries and in Euro bonds much longer than any qualitative or fundamental manager would have. To qualitative managers the declining yields did not represent value. Gilts got to 1.9, we saw Germany issuing two year bonds at 0%, ten days ago, but the CTAs long term systems served them well and kept them in the very profitable long term trends. It is one of my concerns going forward that investors have to realize that there are a good number of other strategies in the managed futures CTA space, just like there are alot of strategies within hedge funds that contribute to building a diversified portfolio.

Jim Cone

Oliver Prock: Jim, I agree since fundamental analysis would argue that the yield of a bond cannot go negative or stops at zero. But just look at the Swiss curve which has a negative yield until 5 years. So, there is no "it cannot be" anymore and this is a perfect scenario where a Managed Futures model without emotions should perform great.

Oliver Prock

Jim Cone: Bill Gross from PIMCO, the most respected bond manager in the world over the last 20 years, acknowledged recently that according to his qualitative analysis there was little to no futher upside left in many bonds around the world, particularly in U.S. ten years. Then we all see in 2011 and 2012 that it was the systematic CTA community who continued to capture the upside in bonds because of their systematic approach. They stayed true to their systems, they stayed in the trade, and it was profitable. The question is what will happen when interest rates start to reverse? CTA's are capable of profiting equally from rising rates and in both bull or bear market in bonds.



Jim Cone

Marc de Kloe: As I said in my introductory statements, we have increased as of this week our hedge fund allocation from 5% to 8%. We recognize that in the long-only world we really have problems trying to find value, which will deliver returns to investors. At the same time our internal analysis has shown that adding another 3% allocation to hedge funds does not increase the risk of a client's portfolio; so we are taking this allocation out of cash. That is our starting point.

We certainly do favor CTA and macro strategies and to a certain extent some relative value strategies as well, however still in the context of a multi strategy portfolio.

It is easy for our discretionary money to allocate now to these strategies via our existing vehicles. However trying to get advisors and advisory clients to understand this is a whole different ballgame. They are completely scared of investing into long-only funds, be it fixed income or equity funds. They are extremely weary of hedge funds, because they just look at the industry last year and say, "well, hang on, you guys are down some 8% last year, why should I invest now? But they are not forward looking and do not look at the risk out there in the future, especially with bond yield so low.

Now, the other issue is in trying to get the right investment vehicles available to make the funds available to our clients. We have been hearing about CTAs until now. Obviously, we need to make sure that a clients' portfolio is well diversified enough. So, we start off with recommending multi-manager, multi-strategy funds. As I said, we do prefer CTA & Macro and some of the credit strategies, but then it is making sure that clients understand that they have their hedge fund assets well diversified and not only in one specific fund.

We do like the use of managed accounts for example, but, again, this has to be wrapped up into an investable vehicle and trying to get something that can be used in different European jurisdictions as a public offering is not that easy. So, this brings in the whole topic of are we just going to sit around and wait for AIFMD to happen? No, because that means we are going to be stuck here for the next two years completely hamstrung and not being able to offer anything to clients. So, we found different, more cumbersome ways of doing that, but then the other message we have to deliver is to our advisors and getting them to understand is the benefits of hedge fund diversification and the pros and cons of different investment vehicles. And not all of them are UCITS vehicles, as some would like to think.

Marc de Kloe

Now, one thing I do see though and this is why I think we see this evolution that Kathryn alluded to earlier where we are moving towards hedge funds version 1.5 or 2 or maybe even version 3 with respect to the structure of hedge funds but also how they are used in investor's portfolios. For the structure we see how the use of managed accounts is evolving but a lot of misconceptions still exist that need to be tackled. We are also seeing some development in the fund of funds space with improved operational due diligence on underlying investments and understanding of operational best practices.

However, we also think we are going to see a bifurcation of the true hedging strategies, namely macro/CTA, which will be considered true diversifiers and the more traditional strategies focused on long/short equity and probably long/short credit actually sitting in the long part of the portfolio acting as a complement to the traditional investments with the aim of reducing portfolio risk. So, ultimately the actual allocation to hedge fund strategies will be much higher then the current amount sitting in the 'hedge fund allocation'.

Marc de Kloe

Michael, how do you see the long/short strategies behaving going forward?

One of the things that we observed recently - and I am going to quote a fund of fund manager I spoke to last week - he said, "a lot of the long/short strategy managers were 'neutered' over the last year," because they got just so scared following the sell off from last August, that they are now taking on very little risk now.

Some of the very active long/short managers have really gone through extremes and they have now positioned themselves accordingly and at the end of last year we can say quite rightly so. However I would very much like to see these managers come to the forefront and educate investors why their long/short fund should actually sit in the long-only part of the portfolio and be used to complement that part. This is still an uphill battle that many managers need to tackle.

Michael Browne

As an investor and somebody who analyzes the companies that run those managed futures strategies, I find this a very interesting discussion. I believe that size is the great destructive power of capitalism, and quite clearly size has destroyed the competitive rates of return in that business over the last few years.

I have two questions or observations. One, whether or not the liquidity that has been in those markets as it goes through a destructive capitalist phase can remain at the current levels, and if therefore the profitability is still extractable? Will all players in the market be affected at the same time in the same direction given the very significant reduction of the capital available by the banks to put into the managed futures or any other business that invests into or trades the financial markets?

My second observation is that while a 80/20 rule or 90/10 rule is the common place in most industries, in managed futures we seem to have a 95/05 rule in that business, which again is deeply disruptive in the medium-term.

Coming back to Marc's point about what happened to long/short equity managers, I think the answer is actually quite simple: they had their money taken away. You could see people moving their money from a long/short equity product to say merger arbitrage, then into some special events, and if that wasn't working they said "let us go into managed futures, let's park our money in some big and liquid market, let's go somewhere else...."

Firstly, capital was removed from equity markets for many reasons. From my standpoint as an equity long short manager, we can talk about valuation until we are blue in the face, but that is irrelevant, because liquidity in a market is always the most important factor and drives the market. The question I always ask about equities is - who is left to buy and sell? If you like, it goes back to the great question posed by Galbraith in his 1954 book about The Wall St Crash, all those years ago. The remarkable thing about any crash is that although the sellers may panic, there is always a buyer, why is that?

It is still an unexplained phenomenon and again, after the last five years, it remains the critical question. Throughout the turmoil in equities, there has always been a bid, a price, a buyer for every seller.

There is a great deceit that exists between bonds and equities. There is always an equity price yet this is something that can not be said for bonds, especially any bond outside of the most sought after, high quality sovereign bonds. At best there is always a price gap, at worst no price at all.

This is, after all, the deceit that so many banks have floundered on. Having realized they held a highly illiquid asset, they were forced to try to find a bid, way below par and were then forced to mark that bond down in their balance sheets, thus destroying them. This is the great deceit about the safety of the bond market - its lack of liquidity when it matters most.

Secondly, lets look at the long/short equity business and shorting. In the past, a manager often earned 5% interest on cash, so shorting was actually a fairly low hurdle rate of return game to play. But, when you are actually forced to create alpha in order to make money out of your shorts - leaving aside any directional play you may be involved in - then you really have to demonstrate some skill. Equity long/short was always though to be actually dominated by the long only industry and so both of these factors – liquidity and directionality – have played out negatively for the industry in general since 2007.

Michael Browne

Michael Browne: Now, for me, the question about equities is has the di-vesting come to an end? If every investor, mutual fund and individual in Europe has gone home and is hiding with their gold under their bed, what will they do with the cash? That is the opportunity set that exists at the present moment in time and over the next 12 to 18 months.

Obviously, a range of opportunities will ultimately come up, be it in equities, credit, or more longer term real assets like property. I see a lot of pension funds buying at the moment and setting themselves up to compete with property companies for real assets because they want to take long-term positions.

Anthony Torriani: From a private wealth management perspective, I believe the skepticism towards the alternative industry is somewhat justified. We are in the middle of 2012 and many investors still have to deal with gates and side pockets established in 2008. Over the 4 years the HFRI is down 12%, and if you look at the bifurcation in performance between the top 50 funds and the rest, I believe the industry struggles to establish any kind of Alpha whatsoever. On top, there are additional negatives related to fees, liquidity, and lack of transparency.

So, the fact that nobody wants to put more money into certain assets like hedge funds does not surprise me at all. The conundrum is that we have a situation where our investment policy is positioned cautiously in high quality fixed income but there we see no potential and possibly negative returns for the next years.

So, we are exactly in the place Martin described. Where is the opportunity? With 30%, we have the highest level of cash we have ever had as a firm and very low risk exposure to equities. Where will investors like us find areas to get performance? In our hedge fund book we have moved away from everything except long/short equity, macro and CTAs. And in CTAs we have our lowest ever allocation to trend followers, for the reasons we have discussed earlier. We have taken out money from a lot of other investments due to liquidity or iceberg or tail risk concerns. For the next twelve months, I don't believe we'll invest into fixed-income, corporate fixed-income and certainly not government fixed-income, and we are not sure how much we can put into the equity markets right now.

Anthony Torriani

Kathryn Kaminski: A lot of people have started to think about and understand the importance of tail risk, market coordination and or systemic risk. These are huge concerns given the market conditions we are facing in post 2008 markets.

One area I see really growing is volatility investing. Interest in this area continues to grow and liquidity in products that focus on volatility is also growing. Volatility is one of the few asset classes that may have the ability to perform during periods of turbulent or irrational markets.

Kathryn Kaminski

Oliver Prock: A lot of people out there still have problems understanding the environment. Everybody should know by now that we are in a Japan low-yield environment with interest rate right down to 0%, however clients still expect 20% return above risk free.

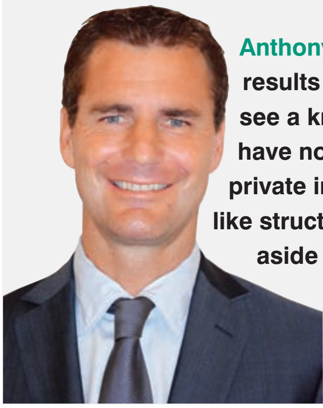
The dilemma for us as an alternative investment asset manager is that on the one hand we try to reduce complexity, but if we want a return like 20%, we will only get it with more complex strategies. At the same time, the investor tries to avoid complexity.

Volatility could be part of the solution but would also definitely increase intricacy. We are thinking of a sophisticated "risk-parity" model which would deliver both: lower complexity and superior riks-adjusted returns in a diversified portfolio.

Oliver Prock

Matthias Knab **Why do investors not follow into those investments?**

Oliver Prock Because they are too complex for them. Try to offer volatility trading to an investor or a family office that only does invest in bonds, equities that is a challenge, isn't it?!



Anthony Torriani: That is exactly right, complexity scares investors. But also, trying to avoid a risk results in creating a new one. I believe this is one of the major problems in private banking. People see a known risk, say the risk of the equity market, and they seek to avoid it by taking a risk that they have no idea about, and they go into investments that are overly complex for the requirements for private investors. They go out looking for these extremely complex, no-lose or guaranteed products like structured products, reverse convertibles etc. and may end up finding sooner rather than later that, aside from pricing, a lot of things around the investment like liquidity, counterparty risk, credit risk and such aspects are a lot greater than they had envisaged.

Anthony Torriani

Coming back to Kathryn's point on volatility investing, we have been investing into volatility through volatility futures and different volatility products like the Nomura, and the JP Morgan products, and a few other products that are out there. But, as Oliver pointed out, the investors' understanding on such complex products and investment strategies is often limited, so we do that in only very few mandates.

Michael Browne: In these times, a lot of investors, also professional investors, are often overwhelmed by all the risks that shout out to them. How as an asset or private wealth manager will you deal with all the obvious risks, the overstated risks? If something has been on the front page of the FT, it is surely known about 27 times over, and so maybe it's time now to actually to reverse the process, making it more simple rather than more complex.

I wonder, instead of paying layers upon layers of costs, fees, and paying for protection from volatility or some more extreme risk, what if we can step right back to the base line and look for the best way to construct a portfolio at this time? Can I find a simple strategy that I can explain to myself and to the client? Guess what, the Wheel works, because it is simple, it goes round. Maybe we are at the point where we need to go back to basics after having gone through a period of chronic over-engineering within all parts of the financial industry.

For me as a long/short equity manager, what this would mean is to expand my balance sheet when everybody else is retreating. Technically I would take on more risk, but I would look for a more efficient and intelligent way to put the portfolio together and to allow alpha to prevail. But in aggregate, if diversified risk is added correctly, I would seek to take lower risk overall. I can explain this to my client base, they will easily comprehend what and why I have done and what the risks that I am taking.

Oddly enough, appropriate extra risk starts to add positive performance and positive feedback from clients. But in order to start creating the alpha you want, the first step you have to do is to have the guts to actually go out and take risk. I just see too many people trying to avoid risk by doing less of what they ought to and purchasing overly complicated derivative products to protect what little they have done.

Michael Browne

Marc de Kloe: That is exactly the hurdle. Investors are just not doing anything at the moment. I believe most of our clients are putting money into savings accounts, and the lucky ones may make 2% at the moment, but investors are forgetting that actual inflation is probably higher than that, so, they are losing with that investment.

In many cases, the advisors are also worried to just enter the conversation about what else can be done at the moment due to previous bad experiences. However, I do believe that the industry itself has evolved a lot. There is a lot more transparency, even managers who used to say "I am not going to reveal anything" actually do reveal a lot, you just have to ask them for it now. In particular, the use of managed accounts ensures that you have the segregation of assets and you can get the risk report when you need or want it.

So, a lot of the old issues actually do not exist anymore and it has become a question of getting people to understand there is something else you can invest into. And these investments do not necessarily entail taking on more risk, but often just deal with different sorts of risk, which means everybody just needs to sit down and start understanding them. In fact, the real risk going forward may well be the lack of education we already talked about, rather than anything else, and I hope that by doing Roundtables like this and other informative sessions, we slowly get to widen the circle of knowledge beyond just a small community of industry of people.

If you think about it: some 15 or 20 years ago our advisors only sold Dutch equities to their clients. Then they managed to finally sell investment funds and then finally, it evolved to emerging market equity funds and now they are selling more sophisticated funds such as convertible bond funds or something similar. We need to leap over this perceived hurdle towards hedge funds and help them to actually start using more and more alternative investments as the larger institutions now are.

Marc de Kloe

Kathryn Kaminski: Behavioral finance has formulated concepts like framing and home bias, meaning that people feel very comfortable with things they think they know, but that does not mean that they are safe. That reminds me about a conversation I recently had with a volatility manager where he said that *"it is very interesting that you see a lot of people will go and put money in a strategy that is highly complex like merger arbitrage; strategies where you have very little ability to predict how humans are going to behave, allowing themselves to be exposed to potential political and other unpredictable risks, but yet they can be very afraid of some strategies which are new and seemingly complex."*

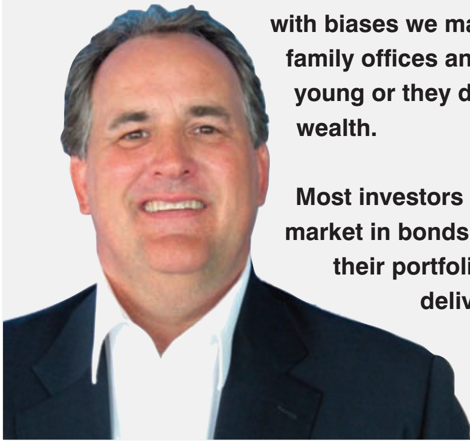
This poses a true challenge for all of us, it is part of the human condition. Just because we know something does not mean it is safe. Going forward maybe a good perspective to include is to try to learn about different strategies and trying to look closer or with a little bit more skepticism at the things we already do.

Kathryn Kaminski

Jim Cone

I want to compliment the Opalesque team in their contribution to education for our industry. We all have that responsibility to try to educate both individuals and corporate on alternative investments.

Tony also picked up a key point regarding fees. We also have a responsibility to make sure our industry is charging appropriate fees and not removing any alpha that is produced by the underlying manager and taking it away in fees.



About four months ago I read an article called "How the Investment Mind Thinks" and it also dealt with biases we make and group-think. We can see that in the marketplace right now where many family offices and investors sitting in bonds are not aware of the risk, because either they are too young or they don't remember the bond bear markets of the 80s and how that can destroy wealth.

Most investors will know about equity bear markets, but much fewer have lived through a bear market in bonds, when rates start to go up. We have a responsibility to our clients to make sure their portfolios that may now be in 45% cash and 25% bonds get into investments that can deliver some type of rate of return and meet that funding gap that many investors are facing.

Jim Cone

Oliver Prock: Actually our firm started 10-years-ago as a fund of hedge funds, but we always had quant experience in-house. I personally have a track record to be very early in a number of things. For example I started the first UCITS hedge fund.

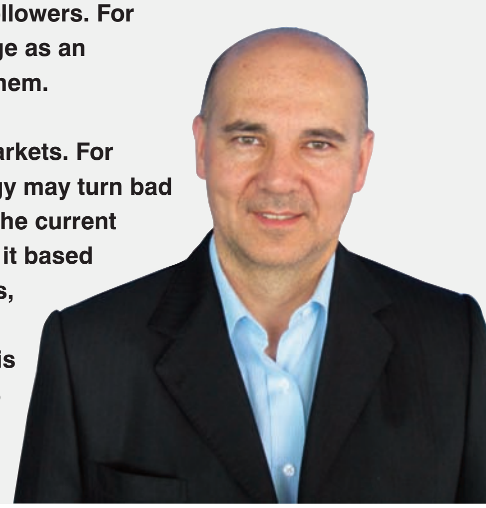
Long before 2008 we expanded into Scandinavia and later into Asia. We found that the different regions are within different cycles, which can probably help in terms of asset raising.

We aim to think outside the box when it comes to running strategies, but it is a very tough path, because many times you end up in the complexity camp. If all managed futures managers argue we have two moving averages and we combine them with those two parameters and we optimize them in such a way, that we will end up with 10,000 optimized models. And that is the story how the client is made believe how things should be in the managed futures camp. However, once you tell the client that you do it differently, that you do price forecasting, that you have a feedback system on forecast quality and that there is no technically analysis involved, then he will be confused. You lost him.

Fact is that we are not using technical analysis at all. I hope that at some point investors in the managed futures space try to look outside the box and discover what's also available in the managed futures space that can basically add even more value. We are usually very low correlated to traditional trend followers. For example, we have a 0.34 correlation to Winton which is quite low. Our challenge as an innovator is how to reach out to new customers without basically distracting them.

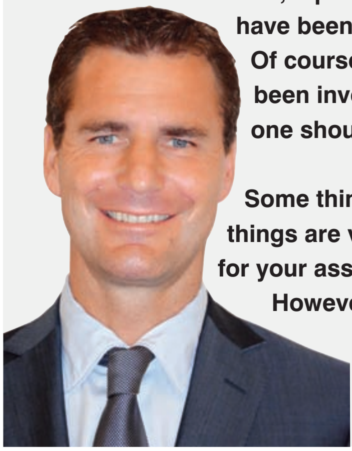
As an asset manager, you need to constantly evolve and adapt to changing markets. For example, if policy makers don't allow markets to fall, the short side in a strategy may turn bad and force you to develop long-only models that are resistant and can work in the current markets. So we took one of our newer models, skipped the short side and run it based on risk parity with four asset classes: equities, bonds, short-term interest rates, and commodities. Actually this looks for me like a product for the next three, four or five years. The strategy had exceptional good performance because it is using leverage. This risk parity product will be launched very soon as a UCITS fund.

Oliver Prock



Anthony Torriani: In wealth management, the need for proper explanation/education cannot be underestimated. I believe in our industry a lot of clients are being pushed out of their natural habitat so to speak, taking risks that they may not even know exist. The quest for returns is pushing them into high-yielding investments, emerging markets, local currency bonds, and into a whole variety of different assets classes whose risk-rewards that are probably outside of what they are expecting.

It is also a fact that this industry has a severe image problem that is entirely justified. Fees are too high, performance too bad, liquidity and transparency are not adequate. Sometimes I wonder, if I look at all the billions that have been invested in hedge funds, how many private clients have actually made money with them? Of course, there are very good funds out there and we have to be careful not to miss them. We have been investing in hedge funds since our company opened, but it is also a relatively risky field and one should be aware of that.



Some things in this industry do change only very slowly. Actually, from the buyer's standpoint, some things are very glacial. For instance, for beta traders to lower their fees and to offer the right liquidity for your assets. Why would you accept three month liquidity for a guy who is invested in liquid assets? However, these things still sell, people still buy that. I do not understand it and I thought that already ten years ago people would have stopped accepting that, but it continues today.

Anthony Torriani

I have no problem to pay 2/25 for real alpha. We do pay for that, but why should I pay one-and-a-half and 20 for a beta trader? Some managers charge and deserve high fees, but most people in the industry do not deserve anything close to the fees that they are generating, and they should really be facing a buyers' strike.

Matthias Knab **Kathryn, you wrote this paper about "crisis alpha". Can you explain to us more about it? Where is the alpha in the crisis?**

Kathryn Kaminski: Several years ago I found it puzzling that systematic approaches were used in some of the most highly efficient markets. This confused me because frankly if there is no free lunch these types of strategies (from an academic perspective) should not work. This lead me to wonder why they could work and what was it about these strategies that made them work?

For example, the performance of managed futures during equity drawdowns is generally exceptional – I wanted to understand conceptually why this is the case. A review of the performance managed futures and connections with my past thesis advisor's theories on adaptive markets lead me to the answer. Managed Futures delivers "crisis alpha" during equity market crisis events. During equity market crisis events, many investors are both driven or forced into action in markets creating persistent trends across a wide array of markets. Opportunistic and systematic approaches in highly liquid, low counterparty risk markets may be adaptable enough to take advantage of this time of "price persistence" and inefficiency in markets. Outside of these moments, there are fewer deviations from market efficiency, leaving less opportunities in highly efficient markets such as futures markets. The data supported my hypothesis and I wrote a short guide to investing in managed futures to help explain this concept with the help of the CME.

If you want to take an analogy, I often use Warren Buffet as an example. Warren Buffet predicted the sub-prime crisis but just like any true "black swan" type event he didn't time it. He remained liquid and avoided hidden risks. By being liquid and unaffected by hidden risks when they came out, he was adaptable enough to buy at the bottom taking advantage of the opportunities that were available. The story isn't about market timing; it is about adaptability and liquidity.

Going forward, a modern day way of thinking about diversification is about trying to find "Crisis Alpha" strategies that are maneuverable enough to balance out your portfolio when traditional asset classes have trouble. This is exactly what our firm is focused on doing.

Kathryn Kaminski

Matthias Knab **This Roundtable circled a lot about product creation. Who else has something to share about that?**

Marc de Kloe: You have to look at the regulatory side of things as well now days and how that has affected the industry, especially in Europe. Any investment manager with a great idea needs to choose an investment vehicle as well in order to execute his idea. I believe that the regulators have not done us any favors in this environment and in fact added a lot of uncertainty with things like trying to split up simple and sophisticated UCITS, with the AIFM Directive etc. I am not against regulation and completely understand the reasons for doing it, but the length of time of bringing the directive to market and to a certain extent the perceived lack of consultation with the industry does not help.

Ideally, we should create one basic European investment vehicle that allows investors with a certain amount of knowledge to be able to invest into hedge funds without too many constraints. Looking at the way the regulations is going, the policy makers will actually exclude a lot of investors from alternative assets going forward, and that in turn may result in creating actually much bigger risks by creating a nanny state opposed to trying to do the best thing for investors. I am a bit concerned regarding the regulatory developments going forward, but I am hoping that common sense will prevail and eventually the right fund vehicles will be available to investors.

Marc de Kloe

Oliver alluded to this as well, Salus Alpha runs a full palette of different fund structures, and it still is difficult to find the right vehicle for their investors although they actually run the same strategies. Unfortunately there is no single investment vehicle that is suited for all investors. AIFMD has created a 2-3 year product development vacuum.

Michael Browne: Within the bombardment of regulatory changes coming against us, I just want to comment that Basel III actually does offer a number of advantages, especially for managers such as ourselves. We do see an incentive here for banks to start to put capital to work at high margins, in more simplistic areas, which is understandable and more tolerable to the politically-driven regulation we are in.

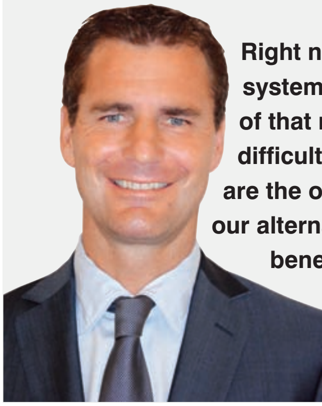
At the end of the day, what you have got to deal with is a fundamental shock to the monetary system, which in itself is shrinking because of the crushingly slowing velocity of circulation. Where when you have a leveraged balance sheet the regulator is telling you to shrink it because you are no longer able to fund it, without the aid of a central bank.

Michael Browne

We are and will remain in a period of monetary contraction until balance sheets as a whole and the wider banking industry are in a shape where by the regulator will finally take his or her foot off the throat of the industry. So really, the question for investors posed by regulators today is not where do I make money but how do I avoid being having my returns removed by the regulator. Until you cease this particular, peculiar monetary policy, we will clearly remain in a liquidity squeezed, liquidity tight, and a difficult low-return, yield chasing world.

But until we move on from that overall fundamental monetary position, any business that deals with circulating money and liquidity will continue to be challenged and be forced to operate in new and differing ways. There will be winners and losers. Some parts such as equity hedge funds will be advantaged as a result of the Basel III regulations, some parts will clearly be disadvantaged and Solvency II does not help the insurance company investor investing in anything other than high grade sovereign debt.

Anthony Torriani: I spoke about our asset allocation before and, at the moment, we are very risk averse and therefore probably part of the problem. While we have the desire to take a little bit more risk and to increase investment in some of the products that you guys offer, it is not easy in times like this to bring it to a client. If I tell a client "listen, I have got this fantastic new quant product, it looks really interesting and has a great track record," the answer is typically "no, I am not interested - I just want my cash."



Right now, holding cash, as we are, may develop into the biggest risk around, whether it is from a systemic bank risk, from inflation risk, or from simply missing opportunities. But moving people out of that risk profile into a something that could be a little bit more appetizing just turns out to be difficult to do. We would like to do it, and I particularly like the strategies you have described, they are the ones we were gearing towards. We are looking at managed futures as one of the key parts of our alternative investment management preferences, both for the liquidity and the counterparty benefits. If I could convince more of my clients to do it, I would do it tomorrow, but it is not that easy.

Anthony Torriani

Marc de Kloe Do you get paid for holding cash?

Anthony Torriani We get paid for holding cash, but that can only last so long. Even if you have produced returns, your clients eventually will tire of paying you for holding cash. For us, cash is an asset. As Katy was saying, Warren Buffett usually has cash in a crisis and we hope that we are smart enough to have a little bit of cash in case things really do become very cheap.

Marc de Kloe Do you think that is what investors are waiting for? They are actually waiting for this huge sell off and hoping that by sitting on cash they will be able to buy in at some point in time?

Anthony Torriani: Precisely, I think everybody has outhought this whole process. Private clients think there will be this magic moment where stocks have a cathartic move down like a 50% drop and they are waiting in cash and do the bottom fishing.

As I expressed before, I personally am very much looking for things to do right now, because I don't think there will be any bell ringing when the time for investments will have arrived. In my view, one of the greatest risks we are facing is missing the upside on different asset classes, not the down. I think the downside is fairly well understood, but moving towards taking upside risk is proving quite difficult with regards to clients.

Anthony Torriani

Michael Browne: This conversation is right on the point and frankly quite hilarious we are discussing this right on the day after the third Greek elections (June 9th) where we are supposed to have had that great binary event. And then in fact the Greek elections turned out to be nothing other than just a continuation of the facts and themes we had before. I think your point is very well made in that if everybody is sitting there waiting for the same thing to happen; you can absolutely guarantee it will not occur.

Michael Browne

Oliver Prock I like the question “do you get paid for holding cash?” Every time I had a larger than usual cash position, I got a lot of calls and also redemptions, so this did not work for us. But that is the environment we are in. Where will this lead to?

Martin Currie had for years a long/short equity Japan fund, and I think you still have it. While Japan is not a great equity environment if you look just at the Index, at the single stock level things can look a lot different. The same could happen in Europe as well, where the markets in aggregate go nowhere, but stock pickers are able to extract value.

We need this stock picking talent and from a portfolio view combine it with managed futures. That could be a portfolio that will work especially when the bond side is limited. Even if it stays on top and does not crash, you are not get anything out of it anymore. Let me do the math here: If a 10-year bond has a yield of 1.4%, a 20 basis point move in price will destroy your entire coupon for the year. You see, this is the problem, because due to volatility every day I could get twice if not three times a 20 basis point move. Therefore, bonds are not really a good thing to own going forward.

Oliver Prock

Matthias Knab **Let's look at the benefits and particularly at the evolution of managed futures. Managed futures have been around for many years now, can you update on some of the most recent developments in that sector?**

Jim Cone The biggest development is that managed futures has become a recognized institutional asset class deserving of a long term strategic asset allocation.

Katy made several key points earlier that sometimes investors forget. If you are invested with good managers, in managed accounts you get full transparency. You can see the positions, they are traded on exchanges, they are marked to market, they are daily liquid, and in almost all cases returns from CTA's are uncorrelated to other asset classes.

Galen Burghardt and Brian Walls recently published a two-piece research based off of their recent book which was featured in the Opalesque Futures Intelligence, where they looked at the correlations and volatilities of managed futures as an asset class. These things are often misunderstood by people we speak to. Managed futures is a predictable asset class that from 1990 to 2011 performed extremely well particularly during the worst drawdown periods of the S&P.

Efficient Capital did a study on the downside protection of managed futures. We went back to 1987 looking at the down moves in the S&P 500 against the Barclay CTA Index, which does not have a survivorship bias. It is not backfilled and consists of managers that are still trading and open for money.

When one looks at that, you truly see volatility in an asset class of approximately 8-9% and a historical rate of return of 6-8%. Anyone who appreciates the return to risk ratio or Sharpe ratio you can get in the managed futures industry will further understand that when you blend them with an equity bond portfolio, you reduce the volatility and provide diversification and uncorrelated returns.

Jim Cone

This all comes back to our collective process of education about Managed Futures and CTA's. Our experience is that people want to learn more about managed futures while making use of the advantage of the transparency that comes from knowing what is in their managed accounts..

One cannot speak of the development of the managed futures industry without making reference to the MF Global situation. It is a black eye for the industry. Anthony made a reference earlier that sometimes we can do the most damage to ourselves. As a result of the MF Global situation, volumes dropped at some exchanges and some instruments can display a wider bid-ask spread, which penalizes all market participants.

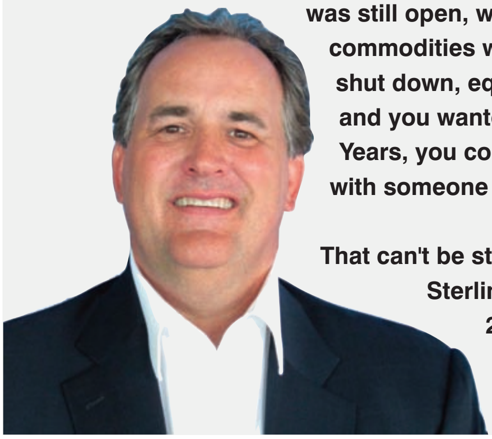
Kathryn Kaminski: I think it is going to be interesting to see what happens going forward, because, in general, people do the opposite of what you should do in managed futures.

They buy after they make money and then they get bored of it when markets are efficient again and then they sell. They essentially buy high and sell low. We are hoping that with more education investors can learn about "investing for the long run" in managed futures.

Kathryn Kaminski

Jim Cone: Sometimes people say managed futures are volatile, and indeed historically we can go through a period of two to three years of flat performance. But let's look in other asset classes like equity where many people just sit through five and ten year periods of flat performance, or two to five year periods of flat performance in bonds.

Time passes quickly and so it is sometimes hard to remember all details from the 2008 crisis, but most will remember the shock that some markets were just dried up. But not all of them. What was the one market that was still open, where you could find a bid-ask and deal on it? Managed futures and commodities were still fully operational, whereas money markets shut down, credit markets shut down, equity markets gapped lower – sometimes 3-5% a day – but if you were a CTA and you wanted to get out of 10,000 German Bunds or you needed to buy 10,000 US 10-Years, you could pick up the phone or go to your electronic frontend and get that trade done with someone who would take the other side of that trade.



That can't be stressed enough. I was on the floor in 1992 when the Bank of England let the Sterling go, and people could still pick up the phone, ask for a market and short 20,000 contracts of sterling. The market was there and it was deep and liquid.

Jim Cone

Marc de Kloe: I very much buy into this managed futures story as well and certainly hope that our investors will slowly start to buy into it too.

But I still want to say, I think it is part of the larger alternative story as well. Just being long is no longer going to be good enough. We have to get investors to invest into the other alternative strategy as well, be it long/short credit, long/short equity, macro, and at some point they may even invest into volatility as well.

Marc de Kloe

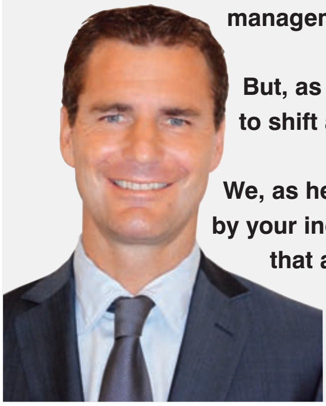
But you have to start somewhere. We have only just gone from 0% allocation 2 years ago, to 5% last year and to 8% now, but you can only do that for the large majority of our investors via multi-manager and multi-strategy funds, which have exposure to managed futures

As we grow and our investors get more experienced with asset class, we will then bifurcate to get the long/short strategies complementing more on the longer part of portfolio and then the hedge fund part of the portfolio will really be the true diversifying hedge strategies.

What is going to be harder is the issue of getting the right strategies in the right vehicles, getting the investors to understand the differences between the different investment vehicles, and the different investment horizons investors need to take with respect to liquidity and allocating to the strategy.

I think over time, investors need to realize that investment strategies do not always just go up in a straight line and that there are going to be some down periods as well, and that you have to sit those periods out, however generally with better risk adjusted results then with long only investments. However, then the manager has to be able to communicate properly on what he is doing so that investors do not become unduly worried because they do not understand what is going to on. This was one of the greatest failings following the 2008 liquidity crisis where many managers went into hiding. This issue of communication and transparency is, I think, the way the industry needs to evolve over the next few years.

Anthony Torriani: If I am not mistaken and you guys can correct me, but the alternative management industry is at an all time high in assets. So, the problem is not really attracting money to the sector but rather that all or almost all of that money is going to very few funds. The systematic risk of these mega hedge funds is really a problem for your industry. It is something that scares us. We look at $100 billion funds and think how on earth can they do it when I have a hard time investing in bonds with $2 billion under management? So, what are you doing with $100 billion under management?



But, as long as risk aversion is so high and everybody wants a brand, I do not see how that is going to shift any time soon.

We, as hedge fund investors, are more comfortable with a mid-tier firm. We are actually quite excited by your industry and look for companies in the managed futures, long/short equity, and macro space that are big enough to have infrastructure, compliance, risk management etc. but aren't part of these mega funds.

Anthony Torriani

Jim Cone: I sat on two investment committees in the last two months, just two days ago with a family office in Geneva. They manage a considerable amount of wealth and their concern is what is going to happen? They are a perfect example of what Anthony was referring to earlier.

They are sitting in cash, they have made their return in bonds, and the question that kept coming up every time is what do we do now, where do we go, are we out of the woods yet?

Jim Cone

Michael Browne: I think that perfectly ties in with Kathryn's point about Buffett. The point about Buffett is that his time horizon is always different to that of the market.

For example, he is prepared to go to cash in 2006, wait three years or more and of course that worked in 2008. Then he is prepared to buy in 2008, for instance the Swiss Re convertible equity, when nobody else would touch the company, because he has a time horizon of three years plus and is prepared to wait.

Michael Browne: What most other people in the markets seem to have lost is the aspect of a time horizon. Your client there in Geneva has no time horizon at this moment in time. Until investors have a time horizon rather longer than next weekend's Greek election, then we are going to continue to go round the same issue.

Anthony Torriani This is exactly right. Right now, investors believe that they can follow the FT or follow a CNBC, and make a decision as to what their asset allocation should be. However, this approach can only work if and when they did their work upfront and well before, and developed a proper investment case, including a sound, diversified strategy, etc.

The other thing I would mention is that at the moment a lot of investors believe they are acting or positioning risk averse, but in fact, when you take a closer look, most of them are taking risks that are higher than they believe, for example duration risk or credit risk.

We mentioned already how the markets have already pushed a lot of investors outside of their habitat, so they could also quite well now move out of these investments into the types of strategies we have been discussing today, because it will be a big surprise to them when the default rates on corporate bond start to rise or if interest rates on sovereign bonds – assuming any sovereign bonds actually will exist – start to rise and the duration effect will be felt. There will be big losses at such a time, because most private investors are 60-70% in fixed income right now.

Marc de Kloe So, that basically means diversify your portfolio well.

Michael Browne And you need to diversify in terms of time as well as assets. I believe it is really important that investors should start to think about having different, well thought-out time segments within their portfolios.