



Opalesque Round Table Series '13 SINGAPORE

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Editor's Note

Family Offices in Singapore – Old World concept conquers new Asian wealth

Asian hedge funds set to benefit

The lack of performance of Asian hedge funds over the last five or 10 years compared with competitors from the U.S. and Europe made it more difficult for them to raise money. However, Japan's "Abenomics" has been a game changer that has put Asian hedge funds back into focus. With more dispersion in stock prices and decreasing correlation across markets, markets are now beginning to reward skill-based strategies again.

The **second and even third generation of Asian hedge fund managers** spinning out now comes with much better experience of portfolio construction than those who set up pre-crisis. That is a major development and improvement, because while Asian managers have always been very good at generating ideas, their weak point was often the actual portfolio construction and delivery of consistent returns, and this new generation is beginning to understand and develop that. But investors are cautioned to be selective, as "a lot of refugees from prop desks" who felt that starting a hedge fund was a natural career progression when coming out of investment banks delivered bottom quartile returns.

The 2013 Opalesque Singapore Roundtable, sponsored by Eurex, Taussig Capital and Eurofin Asia Group, took place on April 23rd in Singapore with:

1. Christian Stauffer, **Eurofin Asia Group**
2. David Walter, **PAAMCO**
3. Peter Douglas, **GFIA**
4. Edward Moon, **Woori Absolute Partners**
5. Yingwen Chin, **Nutrimenta**
6. Sylvain Baude, **Oclaner**
7. Henk Huitema, **EUREX**

The group discussed:

- ♦ **Family Offices in Singapore – old world concept conquers new Asian wealth:**
 - What are Asian family offices' strategies and instruments for wealth generation and preservation?
 - Why is Singapore the destination of choice for global family offices setting up in Asia? What is important for them?
 - What is the most important criteria for Asian family offices when investing into hedge funds?
- ♦ **Asian Hedge Fund Update:**
 - What was the best performing hedge fund strategy in Asia over the past few years?
 - What is the appropriate return investors can expect from Asian hedge funds?
 - Which investor types started to look beyond the big multi-strat hedge funds and express demand for exposure and alpha generation from emerging managers?
 - In what respects are the second and even third generation of Asian hedge fund managers spinning out now different from the earlier generation?
 - Cost structures: Is it still possible to start a fund with \$10m, \$15m or \$20m in Singapore?
- ♦ **Finding Yield and Alpha in Asia:**
 - Where do investors find yield and alpha in Asia right now?
 - Is it true that what in Asia appears to be pure alpha is very often tail risk in disguise?
 - Japan or China? What's Asia's biggest opportunity right now?
- ♦ **Business Update:**
 - From "body-shopping" to new forms of co-operation: what's happening between allocators and investors
 - After the recent regulatory changes, is Singapore still one of the easier places for asset management companies to do business?
 - New instruments: Eurex prepares Taiwanese TAIFEX options and futures to be traded overnight, launches derivatives on MSCI World, MSCI Europe, MSCI Asia Pacific ex-Japan and MSCI Frontier Markets Index.

Enjoy the read!

Matthias Knab
Knab@opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Christian Stauffer, Edward Moon, Peter Douglas, David Walter
Yingwen Chin, Sylvain Baude, Henk Huitema, Mezhgan Qabool (Eurex)

Introduction

Edward Moon

Woori Absolute Partners

I am Edward Moon. I serve as the Chief Investment Officer for Woori Absolute Partners. Woori Absolute Partners is an affiliate of Woori Investment & Securities, which is in turn an affiliate of Woori Financial Group, the largest financial concern on a total combined assets basis out of South Korea.

I have been in and out of the region in Asia for the better part of the last 20 years; having worked at Credit Suisse, Solomon, Citigroup, and most recently with Woori where we set up in Singapore in 2008.

Woori Absolute Partners is the alternative investments platform for Woori where we run a fund of hedge fund vehicle and together with our European partner NewAlpha Asset Management have launched a seeding vehicle for hedge fund managers.

Yingwen Chin

Nutrimenta

I am Yingwen Chin. I look after the Asian Hedge Fund Investments for Nutrimenta. Nutrimenta is a multifamily office that was founded in Geneva 40 years ago and is run today by the third generation.

We set up the Singapore office three years ago in order to invest more into Asia and that has paid off nicely in terms of investment opportunities. Previously, the investments into Asian hedge funds were managed out of Geneva, which wasn't ideal. Over the past three years we have invested in nine different managers. Two of those investments are in a managed account format which we find is an operationally ideal structure. It allows us to take some risks that we would not otherwise take in a conventional structure.

David Walter

PAAMCO

I am David Walter. I am responsible for the Asian investments at the PAAMCO, a \$9bn institutional fund of funds working with large pension funds and sovereign wealth funds in the U.S., Asia, the Middle East and Europe.

I have been involved in the Asian hedge fund industry for 15 years or so. About 10 years ago I moved to Singapore, although I have been involved in the Asian markets for over 25 years.

Peter Douglas

GFIA pte ltd

I am Peter Douglas. I run GFIA pte ltd, a fund research firm I started in 1998. Now we research funds and their managers investing in alpha strategies across Asia and the emerging markets, both hedged and unhedged. We've also developed strong expertise in the research and due diligence of physical assets and private investment. We've just begun working with NEPC, a US asset consultant that's been particularly proactive in staying ahead of global investment trends, including understanding the Asian opportunity set.

I sit on the board of the Chartered Alternative Investment Analyst Association, and spent 10 years on the global council of the Alternative Investment Management Association. I'm also a Singapore Financial Industry Certified Professional, I think the only one from the alternative investment industry.

Christian Stauffer

EuroFin Asia Group (EFA)

I am Christian Stauffer, Founder and CEO of EuroFin Asia Group (EFA). We are a Singapore based asset management company running a variety of investment strategies in the trade finance space. Our trade finance funds are the only vehicles in Asia that give investors access to this low-volatility, true absolute return asset class.

I have been in Asia for more than 20 years, first in China, then in Singapore, then Hong Kong and back to Singapore in 2003 when we launched EFA.

Henk Huitema

Eurex

My name is Henk Huitema and I am Head of the Eurex Singapore office from which we cover most of South East Asia, including Australia. I have over 13 years experience in the Asia Pacific region, 10 years of which I spent in Australia and relocated to Singapore in 2010 with Eurex. 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 all being subsidiaries of the Deutsche Börse Group

Sylvain Baude

Oclaner

I am Sylvain Baude. I am the CIO of Oclaner, a multifamily office company set up in Singapore in 2009. Our core activity is wealth management for high net worth individuals and assisting existing family offices to optimize their portfolio construction and implementation processes. Our three main services are family office structuring and management, independent investment solutions and bespoke portfolio strategies as well as direct investment into real assets. In short Oclaner's key strengths stem from the wealth of experience through the partners involved and the strong network of entrepreneurs and fund managers which we have developed globally



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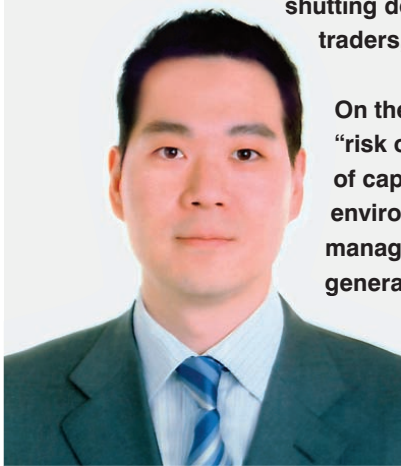
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Edward Moon: Our firm's decision to enter investments in the emerging manager space was based on a decision to capitalize on the supply and demand imbalance with regards to hedge fund managers in Asia. We see an increasing amount of talented managers coming off established global platforms as well as proprietary trading desks. Due to the changing regulatory environment, financial institutions are de-risking and that has resulted in reducing or entirely shutting down proprietary trading activity. That talent, be it in the form of portfolio managers, traders, or research analysts, is now branching out on its own.



On the other hand, post-global financial crisis, asset allocators have generally been in a “risk off” mode and have reduced investment activities in this space in particular. The supply of capital has been limited, and this has resulted in a very challenging fundraising environment for emerging managers. With this as a backdrop, we believe emerging managers can provide very attractive investment opportunities going forward – they are generally more willing to provide increased transparency and by implementing various structures, we are able to monetize the risk premium associated with investing in early stage managers. Not to mention that we have very strict guidelines indeed regarding risk taking and our ability to redeem our capital should certain thresholds get breached.

David Walter: PAAMCO has always been focusing on emerging managers. Recently many large hedge fund allocators have tended to go directly and invest with, say the large global multi-strategy managers, and to be frank in these cases, there is not really a lot of value added we can give them.

But some allocators are looking beyond those big multi-strat hedge funds and express demand for exposure and alpha generation from emerging managers, using them as completion portfolios to their larger institutional portfolios. These investors are looking for exposures that they might not get necessarily from their large multi-strategy exposures.

Looking at the Asian hedge fund industry, the fact that performance has generally been lacking over the last five or 10 years also made it more difficult for people to raise money.

One would expect using a local Asian hedge fund may offer investors a premium in terms of performance, but for the last years generally speaking we haven't seen that against the competitors from the U.S. and Europe. Of course, there are some Asian hedge funds that I am happy to have in my portfolios, but in general the industry as a whole still hasn't really developed, which is a challenge it has to face.

I agree with Ed that good talent is spinning out now. What is different to previous years is that those people are the second and even third generation of Asian hedge fund managers, and we find they have much better experience of portfolio construction than those who set up pre-crisis. That is a major development and improvement, because in my view Asian managers have always been very good at generating ideas, but their weak point was often the actual portfolio construction and deliver consistent returns, and this new generation is beginning to understand and develop that. Therefore I am actually more optimistic than I have been for a long time.



Yingwen Chin: We also see a lot of new talent coming up, but the hurdle for institutional investment remains very high. Even if a manager manages to raise \$50m of day 1 capital today, it's still not enough. When we invest in a smaller manager, we do take operational risk which we are not necessarily being compensated for. So our implicit rule of thumb when we look at commingled fund investments is to look for managers that are around \$100m AUM, because we are looking to build a \$10m position for a fund to make a difference in the portfolio. If we are investing via managed accounts, then this AUM hurdle goes down dramatically as we are effectively absorbing most of the operational risk.



Today's environment has actually gotten a bit frustrating for allocators like us. Over the last 12 months or so we have seen a number of good managers that I potentially want to give money to, but they are stuck at a point where they are not growing the AUM, and I am stuck because I can't give them money as long as their AUM remains small. So what happens is that at some point in time one of us gives up. And unfortunately for the managers, that means shutting down and maybe going back to old firms or joining a much bigger hedge fund. From an allocator's point of view I feel we are actually losing the pool of possible investment talent that we want to allocate to.

Peter Douglas: I agree that fundamentally the picture for the alternative investment industry in Asia is still rather gloomy. Our firm's almost evangelical belief is that alpha is not scalable. My view following the financial crisis was that scale wasn't only suboptimal (as it always has been), but (post-crisis) actually dangerous. Our position has always firmly been that in alpha investment, small is better than large. Alpha is, a priori, not scalable. Can I say that again? Small is better than large.

However, that position has been 180 degrees different from most allocating trends in the last three or four years, and it's been a lonely place to be.

Since the summer of 2012 or the last quarter of last year, some slight glimmers of optimism are coming through and we have started to see interest from the more mature allocators for real alpha rather than looking for institutional comfort. I don't believe we're seeing a U-turn from investors, but rather a change at the margin. Markets are now beginning to reward skill-based strategies again. Since 2009 or so, the majority of financial investors have been investing in a binary fashion, either risk-off or risk-on, which is very unhelpful for any skill-based strategy. In that environment there is little reward for any skill beyond momentum trading, and hedge funds, in fact any alpha strategy, have had a hard time performing.

I don't think those forces are reversed yet. However on the other hand we are seeing dispersion in stock prices, and decreasing correlation across markets. That is helpful for alpha strategies, and I believe investors, or at least a subset of investors, are beginning to be interested in seeking alpha again. So while fundamentally I remain quite pessimistic, in fact I am slightly less pessimistic than I would have been nine months ago.

The performance of Asian hedge funds has historically generated the kind of broadly normal distribution of the good, the bad, and the ugly that one might have expected, but the move to risk-off, risk-on killed a lot of hedge fund performance post-financial crisis.

Let me first point to the strong renaissance of non-benchmarked long-only stock picking, which if you go back 20 years ago was what all the boutiques in Asia were doing, before the hedge funds took over!



We have seen steady pick up in terms of performance and asset gathering by some of the good long-only managers, and quite a lot of that is happening in Singapore. As a side note, I also believe that long-only unconstrained is probably the only boutique strategy where you can now start with \$10m and expect to build a real business over time.

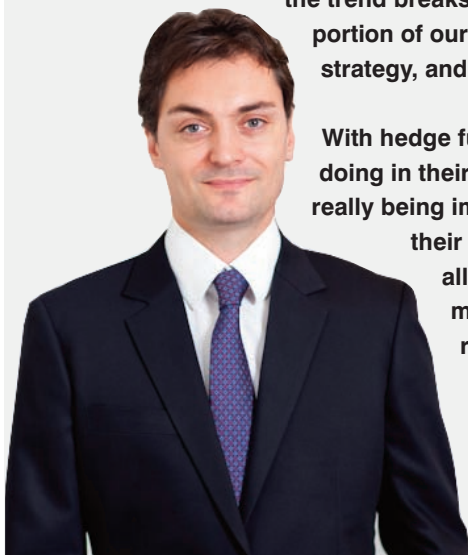
At the other extreme, we have seen a lot of refugees from prop desks who felt that starting a hedge fund was a natural career progression when coming out of investment bank. We never really bought into that process in the first place and hence their frequent disappointment leaves me with a slight touch of Schadenfreude. The really dire performance stories of Asian hedge funds have generally come from those traders who thought they could jump smoothly from a bank environment to running their own hedge fund.

If you look at the historic returns of the total Asian hedge fund industry sector by sector, you find that multi-strategy and event driven, which are the ones heavily populated by these prop desk refugees, are the ones which have the most significant differences between live and dead fund performance averages. In other words, these strategies have seen a lot of real performance disappointments that have killed people's businesses. We can share those numbers if anyone's interested.

Summing up, the normal distribution of the range of performance of Asian funds over the last decade or so is broadly what you might have expected. The outliers have been, of course with some notable exceptions, the ex-investment bankers who have crashed and burned, and the long-only stock pickers, who, with slightly fewer exceptions, have done exceptionally well.

Sylvain Baude: Our first priority in managing portfolios is to protect capital and then grow the asset. When we are looking at hedge funds, we are interested to work with people that can make money in all markets and who exhibit a stable, repeatable and robust investment process. In general, we like to work with people that we know for a long time and that manage medium sized funds. We particularly like global macro or FX based strategies as they are highly liquid and the managers have the ability to quickly adapt to changing market conditions.

We are running two in-house funds, one on Asian equities and the other Asian bonds (Merlion Funds). We are not particularly interested in equity long/short equity fund in Asia. In a nutshell, the usual play of equity long/short managers is trying to get performance via the very small cap stocks, and short some of the large caps. However, when the trend breaks or liquidity dries up, reversing the position can be difficult. We do invest a large portion of our client asset in Asia and global emerging markets, using a highly dynamic strategy, and non-constraint long-only managers.



With hedge fund managers, you don't always get the same transparency about what they are doing in their long/short positions. Resulting in a very difficult gauge of how their strategy is really being implemented. Adding to this opaque way of managing, you also run the risk of their capital base moving out. Sure, some clients can be very ambitious, so they allocate to hedge funds. But when these hedge funds have two or three bad months, they get redemptions, and that can hurt the fund badly as well as the remaining investors.

On the other hand, when you are invested with a long-only manager that goes from \$200m to \$100m, it doesn't impact the performance as drastically. Because managers can get out of long positions easier than short and do not have to worry about unwinding leveraged positions.

So in Asia we invest in quality stocks like Jardine, TSMC, Samsung, and we allocate to long-only managers for small to mid cap, and small cap for us can also mean very, very small.

Recently we have been increasing our exposure to Chinese equities. China growth is decelerating but China is only eight times earnings and 1.5x book value, that kind of valuations provide an attractive entry points on a 12 months' horizon.

Sylvain Baude: Peter talked about the lack of performance of people coming out of prop desks, and that is very logical to me. When you are sitting on a prop desk of one of the large banks or financial institutions, on top of the institutional tools and risk management systems, you can see the flows, you know what is going on and you can go long or short accordingly. Now, if some one spins out and sits somewhere on his own, he has to develop risk management tools, manage his company, and will likely not have access to the same information, and as a result making money becomes much more challenging.

But don't get me wrong, we constantly try to find talented managers that can add value in an uncorrelated way to our existing portfolios.



David Walter: I agree with you, with a few noted exceptions, the long/short equity guys haven't made money, and I also take Peter's point about unconstrained absolute return being a good way to invest into the region.

But just looking at the markets here and the opportunity set, I do believe that the alpha is there. For example, in the past few years the best performing strategy in Asia have been the quantitative equity market neutral guys in our view. There are five or six of them out there and they perform consistently year in, year out, which shows that there is alpha there, largely from the fact that most of the equity markets are dominated by retail traders; there is no big long-only institutional business. So there is alpha in the market, these guys are making the money, but the fundamental discretionary long/short managers are generally not making the alpha, and the question is really why is that?

I think one reason is because they are all in the same trades. We are fortunate that we are getting full transparency because we have all our investments in managed accounts. So we have transparency into all our managers and also any prospective managers that we are looking into. Obviously we sign NDAs and such things, but one thing I can tell you is that I do see a lot of people trying to do the same sort of trades, which is why the discretionary long/short space, with a few notable exceptions, is a lot more difficult, particularly on the short side.



Sylvain Baude: A lot of our clients would like to get emerging markets exposure, but they do not like the volatility of those markets. On average our exposure to Asia and EM markets is about 30%. So compared to MSCI All Country, that is roughly twice as much exposure to that region, but again, we cannot afford the volatility of those markets, and therefore we try to smooth the volatility with a flexible allocation. We prefer this approach than having a long/short manager whose exposures are not transparent, it may be two-third long, one-third short, and if there is a crisis like in 2008, the value of their portfolio could drop sharply. On top of which you may not be able to exit properly due to liquidity constraints. Instead, we try to have liquid long-only non-constrained managers that we blend with high quality stocks in Asia and we manage the volatility using futures or options to mitigate the downside.



Christian Stauffer: I want to add some comments on Yingwen's point that there aren't enough hedge funds in Asia that are large enough from an institutional point of view. The irony of course is that there are no large funds because there are not enough large allocators allocating to these Asian funds. Probably 70% of the independent funds run out of Asia have less than \$50m in AUM, and 85% will have less than a \$100m.

If an institution wants to allocate \$10m but can't be more than 10% of a fund's AUM, then it's an easy job, in the whole of Asia you only have to follow about 20 funds! Large allocations in this part of the world tend to go to the very few funds that are already large enough, and rarely trickle down to the other members of the community.

Another point is that we Asian fund managers are confronted with the perception that Asia should generate superior alpha in every strategy, but I'm not too sure why. When allocators come to Asia, their focus seems to be looking for the really big returns and the really big alpha. I have been in Asia for 20 years, and I see no reason why certain expectations that apply to Asia should be so different from what is applied to the rest of the world.



Before people formulate their return expectations, I believe one should first do some work on the statistical side. I am saying this because we as a fund manager, as well as probably most if not all of our peers, are often faced with return expectations that seem empirically off the mark. We often hear allocators say they are looking for 15% annualized over X amount of years, but the statistics are publicly available - who in Asia, or in the world for that matter, has performed in the alternative investments space 15% annualized return over an interesting period of time? I am not talking about a two year run followed by the typical plunge. How many managers out of the 12,000 or 13,000 guys who are populating the alternative space have generated say more than 5% annualized compound return over the last 10 years?

Less than 500 managers have probably delivered 5% absolute return over 10 years, and adjusted for volatility probably less than 50.

Edward Moon

I would like to take a step back and expand on the concept of risk that was also brought up by Yingwen when investing in emerging managers. As an allocator into both developed managers and emerging managers, we have found there appear to be certain misperceptions about the level of risk that is taken when one allocates into an emerging manager.

Certainly the need to perform due diligence is still there, and arguably the due diligence required post GFC is now more comprehensive than ever. However, the spotlight we place on emerging managers involves scrutinizing the manager's ability to mitigate not just investment-related risks, but operational and business risk as well.

Edward Moon: Along those lines, I think there exists a common perception that bigger is generally "better" than a smaller fund. We find this is not always the case. For instance, as a manager gathers assets and grows near or above a strategy's capacity - somewhere on this growth path that manager may be moving away from their sweet spot, hindering the ability to perform. There is generally a trade-off between the growth of assets under management, and the ability to generate consistent returns. In other words, at or after a certain point, how much "true alpha" is being generated?

There are numerous studies examining how smaller managers are in a better position to perform. Along those lines, there is an argument to be made that one significant advantage smaller managers have over their larger counterparts is the ability to be more nimble and being able to get in or out of the positions more quickly.

While it is certainly true that smaller managers have significantly different risk profiles to larger, more established hedge funds, a few factors help to mitigate these risks, namely, experience in seeding emerging managers, a robust and thorough due diligence process, the structure of the partnership, and the manager's willingness to provide full transparency.



Yingwen Chin: I agree, we are not really looking for what the super large funds are producing. In effect, we have increasingly stopped looking at the \$1bn plus funds, simply because we don't feel like we are getting the alpha that we are paying for. Also, we have an absolute target return hurdle we find many of the mega-funds are unable to beat at their size.



We sometimes do work with smaller managers using managed accounts if we think he has a sustainable investment strategy, that he is in a very comfortable niche and that he is going to survive. For us, the risk is that we invest in such a guy, and one year later he tells you he's shutting down because he hasn't managed to raise that \$50m as a business. These things can happen and for us as an allocator, that is in fact very annoying, because you had planned to grow this position, and now I have got to find a new home for the money.

So for us, the sweet spot in terms of AUM in a global strategy is maybe around \$300-500m, and about \$100m for an Asian hedge fund. These are ballpark numbers, because you have to make some adjustments according to the type of strategy. Different strategies like systematic, fundamental equity long/short, credit or multi-strat all have different infrastructure and organizational requirements that are part of the baseline you're looking at in terms of whether or not they can even cover their cost.

Peter Douglas: Yes, the cost base, operational infrastructure, and business resourcing all need to be appropriate. We've seen managers with too much infrastructure as well as too little. An over-resourced business risks being less focused on being a careful fiduciary and performance generator, and more focused on chaperoning people's careers and bonuses.

Allocators don't always help either. The "my DDQ is bigger than your DDQ" mindset can lead to some very wasteful administrative activity that distracts from the core focus of a hedge fund. We have always done an appropriate amount of due diligence, focused on business processes and operations, but over the last four or five years I have to say we've seen plenty of examples of overkill.

So maybe a manager needs three support staff and maybe you need thirty – but why is that the right number for her business? Maybe a manager generates three daily reports and maybe thirty – but why does each one help her safeguard clients and create better performance? Having two former investment bankers occupy each box in the organogram may lead to organizational dysfunction than efficiency.

It's all about appropriateness for what the manager is trying to achieve. We're skeptical of managers who've resourced purely to polish their DDQ.



Christian Stauffer: Focusing on costs is a wise thing for both investors and managers. Even in Singapore costs have risen significantly, and this trend will clearly continue. I am not sure if a manager running \$50m can still be profitable here.

I remember back in the early 2000s we were saying if someone set up in London or New York, they would probably need \$50m or \$70m, while here one used to be able to start a fund with \$10m, \$15m or \$20m. I don't think this is possible anymore. There is the regulatory cost, there are all sorts of ancillary costs, and on top the markets have generally been difficult. So not all of the smaller guys will make it, there is a risk they will fold.



What is needed, and I do not know if this will ever happen, is a new paradigm going forward, a more intimate cooperation or alignment between the managers and the investors. Such a fundamental change can probably animate the market more than the current approach where the allocators go kind of body-shopping and turn away at some point because they find too many small managers, or because they can't find anyone offering a 15% annual return, or for whatever other reason.

Rather than this type of body-shopping, there should be an open discussion on how allocations will be managed between the manager as a service provider and as an outsource facility, and the allocator as an aggregator of money. Each party has to pick the right guys to achieve what is right for their particular strategy and mandate.

Matthias Knab

Do you see this change in the model from body-shopping to more co-operation between allocator and investors happening?

David Walter

Yes we do see that happening. Probably since before the financial crisis, the industry has been bifurcating where you have managers going the institutional route and others taking the non-institutional route, and things differ to a great degree between those two camps.

David Walter: If you compare funds with managed accounts, the typical Cayman fund is usually set up and aimed at the lowest common investor. A manager's aim with his fund is typically to make some money, protect capital, and to raise more money while building his track record. When it comes to the fund, he is offering his clients the exposures that the lowest common dominator investor would want.

If you are actually running a portfolio of funds, you probably are looking to take on different exposures. To simplify things say the typical fund, doesn't matter which strategy, may have 60, 70, 80 positions. Typically most of the returns come from their top 15 or 20 positions. So one of the things we are doing with managers, using our managed account platform that allows us to work with them very closely and have full data transparency, is to work on a tailor-made approach where we can add exposures such as a bit more directionality, concentration or even a bit more leverage. So working with the manager we can define the type of exposures and types of returns that we actually want. And that's attractive to managers too. While the management fees will usually be lower in this model, in the end they are making more money from the performance side – if they're any good. So that is an example of what we see happening in the institutional market where not only our firm but a lot of other investors who go direct into hedge funds both from this region and the U.S. are heading.



Matthias Knab

The other aspect Christian talked about is the change in the cost structure in the industry generally, but specifically here in Singapore. Can you tell us more about that and how the regulations in Singapore have changed?



David Walter: Since the crisis there has been a mindset change in the authorities here in Singapore, and of course we have seen a lot of regulatory changes in the U.S. and Europe as well. Traditionally, Singapore has always been very welcoming to start-up managers with their Exempt Managers' regime. You basically had to call up the regulator and tell them you've started this business, and that was pretty much all you had to do.

As Christian mentioned, the change in regulations here are adding to a fund manager's cost structure, but the broader aspect is that the bar for new entrants in general has been raised considerably, it's almost a new mindset where the authorities are becoming more selective towards new market participant, but have started to filter who they let in and run a funds business here. I think this can only be a good thing for the industry here and its reputation.

Peter Douglas: While the Singapore regulatory regime has certainly become significantly more onerous, it's still one of the easier places to do business as an asset management company, even as a small asset management company. The MAS has made and continues to make big efforts really to understand the industry, but these days they also have to play a global game. There are no regulatory islands left these days, as any regulator's actions are compared with the corresponding regimes in Hong Kong, Europe, London, or wherever, so the MAS has to play this global game. Within that context, however, I think they are trying very hard not to emasculate the industry.

So the direction that regulations here are taking is fine, in my opinion.

Conversely, the cost structure for doing business and for living in Singapore has changed dramatically. Ten years ago, I would have said that one of the key attractions of Singapore was that it offered arguably the cheapest middle class life style on this planet, and was one of the lowest cost locations to run a global knowledge business. This is absolutely not the case any more.

I offer this anecdote: a friend of mine who has been running two financial services businesses, one in Singapore and one in Tokyo, for several years now, feels that last year the price points tipped, and Singapore is now a more expensive place for him to live and do business than is Tokyo. I suspect we all feel this.

The barrier to entry in terms of the flow of people and ideas has also gone up hugely, and this is partly a function of supply and demand, and partly the result of distinctly more populist government policies.

All of us get deluged with desperate resumes, in particularly from Europe and to a lesser extent from the U.S., every day of the week from senior professionals that want to move to Singapore. While more expensive now than before, Singapore still offers a modest tax environment, it is safe, and the newspapers are not full of stories accusing you of being criminal just because you are successful. So people want to be here, and that allows the authorities to raise the bar for entry. The days when as long as you had a degree and worked for a recognizable company, you would get your employment pass, and in due course (sometimes immediately) permanent residency, have absolutely gone. The barriers to importing people are much higher now, and we have to manage our businesses carefully with regard to the nationality mix we hire.

You could also say that Singapore is becoming a normal country. What I mean by that is that you can see the seeds of the problems that every other successful developed country in the world has. There are the beginnings of a welfare state, together with the beginnings of a populist democracy that is pushing back against foreign involvement. Singapore is becoming a normal



place. It's still a very attractive place to live and to do business, and can compete with most world centres, but it is certainly harder and less welcoming than 10 years' ago.

Christian Stauffer

Regulations change everywhere. Switzerland is reviewing its collective investment scheme laws, AIFMD is being implemented and it will be interesting to see how the offshore funds will do versus onshore funds like UCITS.



Christian Stauffer: In my view, I'd rather invest in a good manager through an offshore fund than into a UCITS III fund of a bad manager! So we as single managers have to closely look at these kind of developments, even though not all of the things that are implemented represent a true market evolution. Still, we have to look and study all these changes in order to be investor compatible. In my mind, the main issues boil down to having a meeting of minds between your allocator and what you are doing, and to express openly what you can and cannot do. For example, I cannot run a trade finance strategy in a UCITS III form. Or maybe I can do it, but then the investor cannot obtain the returns he wants.

For us as a single strategy manager, the most important aspect is to have that open dialogue with the investor, which also includes explaining the things that cannot be done. If you are not sticking to such an honest dialogue, we think it's dangerous not only for the investor but the manager as well.

Yingwen Chin

Singapore is Nutrimenta's newest office, and we are still growing it. The Singapore office was actually set up by the grandson of the family. He shifted his whole family including three very young kids, and the fourth one was born here. If you look around the world now, Asia is clearly the place to be. Within Asia, I'd look at Hong Kong and Singapore. With four young kids now, Singapore wins, I believe this is a very easy elimination.

I also agree it has become harder to bring people in although the overall cost of running a business here is still not prohibitive. The MAS actually does a lot of financial training, incentive and subsidy schemes that are very helpful to young financial firms in Singapore.

Yingwen Chin: It is correct that costs have gone up, but the rewards are still high. We see Asia as the next growth point, and we continue to invest into the region. Also, now that we have been here for three years and we know some of the other wealth managers on the ground, increasingly people start talking to us about partnerships because we bring 40 years of wealth management experience to the table. There is a lot of first generation wealth in Asia. With the patron now reaching 60 or 65 years old, they are at a point where it's not really that interesting to continue adding risk but start thinking about succession planning and capital preservation or what sort of dividend paycheck he can give to the next two or three generations. Having said that, we also increasingly see wealth managers setting out on their own and trying to service these people but without really having the required investment or operational expertise. So from our point of view, that has turned out to be a very interesting growth aspect of our business.



Edward Moon

While the cost of living and doing business has indeed increased over the last few years, Singapore still continues to be an attractive hub to conduct business in Asia. It is a location that promotes entrepreneurship and offers attractive tax structures which provide investors with comfort and confidence, so it's not difficult to see why Singapore remains at the top of a shortlist for many companies when deciding on an ideal location to establish a presence in Asia.

The other thing that we would note is that while not having had the opportunity to set up a similar business in other jurisdictions, we have found communication with the MAS very efficient through our contact points.

Coming back to earlier points made regarding regulation, we believe that these changes are in the right direction and will provide more comfort to investors regarding transparency, risk management and legal recourse. Ultimately, however, the aim should not be to shift risk and responsibility for investments back to the regulators, rather the aim should be to ensure a level playing field for all parties to conduct business within a viable regulatory framework which fosters the assurance necessary to deploy capital confidently and for that capital to flow efficiently.

Matthias Knab

Let's look how the Asian market infrastructure and the financial instruments have been developing here in Asia. Sylvain already mentioned how he is using certain futures to hedge emerging market risk and to smooth volatility. Henk, what are the latest news and developments from Eurex in that respect?

Henk Huitema

Let me come back for a moment to Ed's comment about regulations, and I agree that a sound regulatory framework has to be in place to create transparency in the market. As a European derivatives exchange within the Deutsche Börse Group, a lot of our activities are driven with the upcoming regulatory changes and requirements.

We have to deal with MiFiD - Markets in Financial Instruments Directive, EMIR – the European Market Infrastructure Regulation, Dodd-Frank, high frequency law or the discussed Tobin tax in Europe, all these regulatory changes might have significant impact on the exchange and affects how we position ourselves for the future in order to meet the requirements and continue providing the highest level of services and offerings to our clients .

Henk Huitema: Within the exchange, Asia is considered as a growth market and we have been active with co-operations in the regions. One of the most successful partnerships to date is our Eurex / KRX Link. This allows us to offer overnight access to KOSPI Option by extending the Korean trading hours onto Eurex trading platform. At the moment we have about a 5% market share of the day time volume with more participants lined up to join the link. Furthermore, we have signed a Letter of Intent with the Taiwanese TAIFEX, through which we aim to offer a similar set up for TAIFEX options and futures to be traded overnight on the Eurex trading platform. The daily futures on the Taiex Options and Futures at Eurex will be fungible with the Taiex Options and Futures traded at TAIFEX.



Our objective is to extend our product portfolio to the global trading community and in this respect we have signed an agreement with MSCI to license a portfolio of indices. We have already launched derivatives on MSCI World, MSCI Europe, MSCI Asia Pacific ex-Japan and MSCI Frontier Markets Index and will be introducing more MSCI emerging market indices in the near future. In addition we listed derivatives on the French government bond which is a very successful product and has already traded more than seven million contracts since its introduction.

Christian Stauffer

All short...

Henk Huitema: Not necessarily. Quite a few institutional investors active in that space are looking for alternatives as the German Bond futures with their current low yields have lost some of their attraction as a benchmark for Europe. Institutional investors show appetite to shift their portfolio to contracts with a higher yield like the French government Futures OAT and the Italian government Futures BTP which we have listed as well.

We continuously expand our product portfolio and there is increasing demand from investors to learn and understand how they can utilize our future products to establish a portfolio overlay. A fund manager can leave his initial portfolio intact and create a synthetic portfolio using e.g. OAT / BPT futures or Euro Stoxx Index futures. Other fund managers use the futures to trade the BTP/ OAT government bond yield spread.

However, as an exchange it is our duty to ensure the financial stability and integrity of the market and for this purpose we have several initiatives on the Eurex Clearing side.

In particular for the fund and asset management industry it is interesting to know we have introduced an Individual Clearing Model (ICM) in which they can get a segregated sub-account on the clearing house level with Eurex Clearing. That means in case of a default like Lehman, or MF Global, you have complete portability of your positions and your collateral. The participant of the ICM will temporarily become the counter party on the exchange level in case of a default and you are completely segregated from your prime broker.

Additionally, our portfolio-based margining system PRISMA has also been a major innovation, together with the OTC interest rates' platform that we introduced. With this system we offer a single portfolio based margining approach for exchange traded and OTC products and instead of having separate margins you can establish substantial savings for your collateral using Eurex Clearing as your CCP for exchange traded and OTC products.

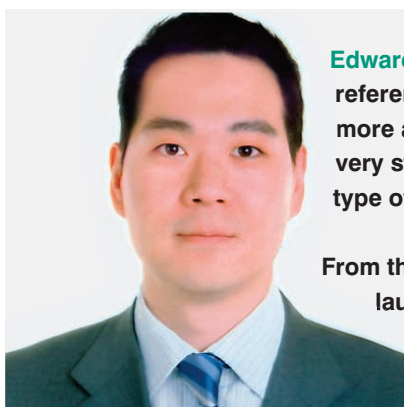


Matthias Knab

What types of opportunities are you looking at right now? How do you find yield and/or alpha in an increasingly yield-less world?

Edward Moon

There are certainly challenges in the market, but from our perspective we welcome that. If making money in the financial markets was as easy as throwing darts, then perhaps our value wouldn't be so compelling. But even for investment specialists like us it does take a considerable amount of time to perform proper due diligence and source managers that are truly generating consistent alpha on a risk-adjusted basis, and doing so in a responsible manner.



Edward Moon: But once you have identified the right partner - I am talking here with reference to an emerging manager – other investors sitting on the sidelines may start to pay more attention. I think our first seed ticket is one where we felt the manager possessed a very strong pedigree, with a proven track record as a portfolio manager managing the same type of strategy from 2007 to 2010, and returning positive absolute returns in all four years.

From the manager's perspective, being able to come out to the market three months from launch and having a firm AUM of \$100m, including our seed ticket, is certainly compelling for some of the reasons mentioned earlier.

Matthias Knab

Where is the money coming from?

Edward Moon: We put in our seed money with NewAlpha, and Mosaic was also able to secure a sizeable ticket from an institutional investor. We have been getting a lot of interest based on our initial investment that happened on March 1, and are still working closely with Mosaic on various fronts – some of the added value we bring to the table to our seed investments, not least of which is the ability to put them in front of key institutional investors globally.

That being said, vetting 150+ managers to find that one manager is not a simple task. While some of those managers will certainly remain on our shortlist, but the reality is that the vast majority of those managers will not make the cut or were not viable for investment for different reasons. So this also acknowledges that it is a very challenging market for a large portion of the managers out there in the emerging manager space.



David Walter

I agree with Edward. We have focused on emerging managers since we started and it is hard to find the talent.

David Walter: I think Matthias' question about where the yields are is an interesting one. There are strategies that are working in Asia, for example post crisis the credit space has been very successful. Arguably a lot of that has now played out, although if you actually look at investment grade credit in Asia, it tends to be something like 70-80 basis points wider than its North American equivalent with the same rating. I think there are opportunities for yields here in Asia. You can find high yielding stocks as well, where the dividend growth is much stronger than in any other region. You can also set up simple sort of arbitrage type strategies that can yield decent returns.

One of the exciting things I see looking forward and that Henk also confirmed from the exchange perspective is that we are seeing improvements in accessibility and liquidity. The credit market has had record issuance so far this year and is pretty liquid at the moment, and the derivatives markets have become more liquid as well. Even regarding China, which of course is the big one we are all waiting for from the view of markets opening up, there are interesting ways becoming much more open to overseas investors to trade and access China.

You can revert to futures and certain ETFs to short things, and I do suspect that stock shorting will be allowed in China over the next two to three years. This will create an enormous opportunity, not necessarily for long/short managers, but for arbitrage and related strategies.

So I do feel the markets are continuing to mature, and in that development there will be an enormous amount of opportunistic alpha that will become available over the next two, three, or four years. Regarding India as an investment destination, I do believe the country is still at a place where it needs to get its act together; the markets and investment environment haven't really moved for the last four or five years. Here I would say the outlook is a bit less certain, but overall Asia still presents enormous opportunities because of the ongoing developments in the markets.



Peter Douglas: Let me add two background comments about the questions “where do we find alpha and where do we find yield?” First, I very much echo Sylvain's comments – we can find alpha, but how much we are prepared to pay for it? It's fine pulling 5% per annum of alpha out of a strategy, but if your manager is taking 4% of that in various fees, then why bother? And secondly, from our experience of having been looking at hedge funds in the region for 15 years now, what in Asia appears to be pure alpha is very often tail risk in disguise.

The big risk in Asia, and this is a very obvious comment for those around this table, is not volatility, is not political, is not market risk, but liquidity. In Asia it is always provisional. Therefore any strategy that relies on high gross and low net is a risky one. And that's often where we find the "alpha" managers playing.

If you are running a big gross book to create your "market neutral" alpha, you will get taken out, whether it takes four years, five years, seven years... If you're running a small fund with good risk management you may survive. Otherwise, not!

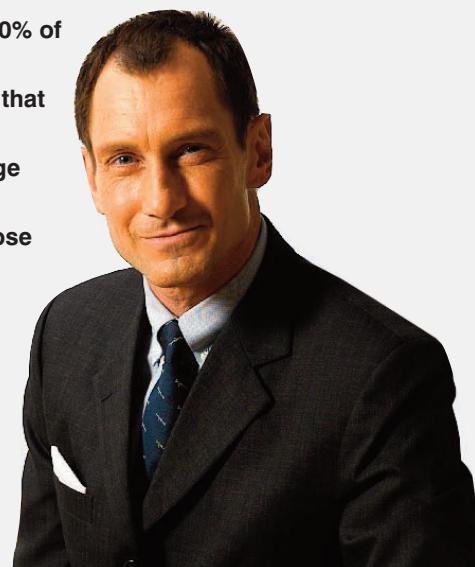
So yes, there are some great places to find alpha, but also be careful what you wish for, because much alpha in inefficient markets comes with tail risk. It may not be always be worth it, especially if you add hedge fund fees into the equation.

Having said that, Asia is an enormous source of stock alpha. You have over 20,000 listed stocks in the region, with perhaps a third having some sort of sellside coverage. Therefore, finding mispriced securities is, in a way, the easy part.

For example, the biggest equity alpha bucket in the world is Japan, and it has been so for 15 years, not that investors have cared much!

You have 3,000 listed equities in Japan with international sell-side coverage of 10% of that. The domestic sell-side covers maybe 20% of stocks, but this research is generally incomprehensible to most international investors. You have a market that works, is liquid, and represents the world's third largest, and perhaps most innovative economy. There's almost no prop desk activity in Tokyo and the hedge fund industry there has been decimated since 2006 – in other words, the alpha-seeking population is minimal, dramatically increasing the return potential of those who are left.

So in that regard I will have to disagree with David, in that I don't think China is the big story of Asia from a securities investor's point of view; I think Japan is. China may well be the place for building your factory, buying your business, or selling an inch of shirt cloth to each Chinese consumer, but if you are in the business of trading financial securities for reliable alpha generation, China is the sideshow compared with Japan.



Sylvain Baude: For private clients to capture growth, real estate and investments in real assets are very attractive because you can get very high returns. Singapore is a fantastic place for such growth stories, and you have places like Malaysia, Indonesia and even frontier markets like Sri Lanka that have a huge need for urbanization. So that is one part of the portfolio where we try to get 20% or more compounded rates of return.

To get any decent yield on the fixed income space, we have been forced to change our management approach. In the normal yield environment that was prevalent before the 2008 financial crisis, you could get the same decent yield on hundreds of quality bonds, so the only sensible risk management was to diversify your book. Today if you do that, you get 2% yield with a duration risk of seven. So you are not compensated for the risk taken on the duration.

Many participants are leveraging up their fixed income allocation, but we believe this is a bad idea as the trade is already overcrowded and duration risk is very



high. So to capture 5%-5.5% income, we concentrate the portfolio around our best convictions, like 70-100 bonds. But of course then you have concentration risk. It all comes down to risk management and the capacity to trade in and out of bonds and using stop losses. On the other hand you have to be extra careful when you invest in Asian fixed income, we have already seen a lot of inflows into the region, touching \$13bn already this year, last year it was only \$3bn. As Peter was already warning, liquidity can dry up very quickly in those markets.

In our fixed income fund, we keep a balanced position between investment grade and high yield bond, but certainly to get 5% to 5.5 %, you really need to go for risky investments or carry trade strategies – all strategies that pay off bit by bit, but lose money very, very quickly. There, you cannot even protect yourself with stop losses but rather using put options.

On the equity side, markets have been driven by the extraordinary monetary expansion, and markets, particularly in the US seem at odds with the economy and in any case have relatively poor expected returns.

Nevertheless, you do not want to fight the FED, let alone all major central banks (BOE, BOJ, ECB, SNB). So I believe the sensible way to invest, is to be long equity markets through quality stocks and selectively cyclical themes (for example, mining stocks are depressed right now), and to hedge against any potential downside. We also use option strategies to get income and to protect against potential market dislocations, take for example the drawdown we had last week in gold, which I think is very telling.

Henk Huitema

Maybe as an idea you can trade our liquid volatility futures and options on Eurex?

Sylvain Baude

In theory yes, but we find playing volatility using futures a very tough game to play because the costs are very high.

Sylvain Baude: We tend to use volatility on an opportunistic basis. Also, we are not sure if we actually like volatility as an asset class, because volatility can stay low for a very long time. Last year, volatility of the S&P was 12% despite a challenging environment. So what we try to do is to be smart about it. When the volatility reaches very low levels like two months ago, when it hit the 2007 level, you could buy put options very cheaply, the cost was just 1%. We just hedge as an insurance, and when the volatility goes up, then we finance our hedge by selling options, call options or put options, if we believe the market will stay in the range. That is an interesting way for the client to capture income without too much risks.



Yingwen Chin: The strategy I am going to talk about is not completely Asian, but the fund manager we partnered with for this opportunity set in structured credit happens to be Asia based. So the sourcing is here, but the underlying is not exactly Asian but mostly European or U.S.

We found that structured credit has been a very good space because post-2008 pretty much the whole industry dried up, but there are still a good number of attractive papers around. A lot was sold to Japanese and Australian institutions, and some of them might not even realize they still hold them. If you now get a manager who actually knows the real value of these papers and also knows where to source them and how to get them off the hands of the people that currently hold them, then it makes for a very interesting long term trade.

One of the luxuries of being a family office is that we have long term capital.

Assuming our fundamental credit analysis was correct when we enter an investment like that, we are happy to hold the paper and sit through the volatile periods. This is a market where liquidity can dry up overnight in



times of stress. Your insurance is to make sure that you pick the right papers, but where we really find the interesting returns here is through the sourcing. The network that is required to go find these papers is what really makes the trade.

Sylvain Baude: One of our recent trades was to sell our U.S. high yield bond portfolio, because we found it overpriced. For the risky part of the portfolio we may prefer to invest in first lien assets, because if the price drops you can mostly convince the client to stay in, because it is secured against an asset.

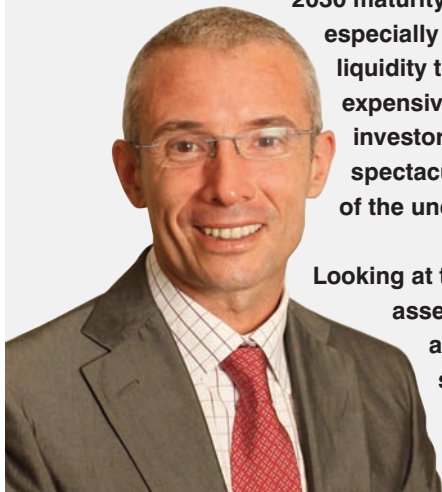
I am sure Christian will be happy to talk more about this, but for us as investors, the whole space of trade finance or commodity trade finance for example is quite interesting, because the market is generally very hard to access. This space is less prone to price volatility. Liquidity is poor in this space but the asset class functions as a coupon-based strategy with a very low volatility. It is very interesting for private clients also because they can leverage it due to amortization of principal that reduces the risk versus traditional bonds where almost all of the risk is on the repayment date at maturity. So after getting out of our U.S. high yield, we invested into a defensive commodity trade finance funds.



Christian Stauffer

On the subject of investors' expected returns, it makes us quite happy to hear from Sylvain, as an investor, that doing 5% alpha is already tough, because in my view this reflects the realities of the market.

Christian Stauffer: We recently ran a small study comparing bonds with the returns we offer through trade finance strategies. Today to find any bond that offers between 5-6% annual yield you are talking about a BBB- credit rating at 2030 maturity. With that you are assuming significant risk. The thing also on fixed income, especially in Asia just as Peter mentioned, is that every time there is a strong event of liquidity the market dries up and offloading a portfolio becomes very difficult and very expensive. This is a particularity in this region because of market size and because most investors here are heavily leveraged. One of the reasons why people do produce spectacular returns in Asian high yield is because the bank will lend three times the value of the underlying. But we all know the implications of that kind of business model.



Looking at trade finance, in general it is more common for financial institutions to look at such asset-backed financing types of credit because they are non-mark to market strategies and so it is just a question of adjusting the duration of the investment. People that still want to have certain liquidity will choose within trade finance strategies, and then the range goes all the way up to leasing and project finance that can have a five to 10 years lock up.

David Walter: I agree with Christian's points about credit. I think what's quite interesting is that there are a lot of people looking to exploit the gaps in the funding space left by the European banks moving from Asia. I don't think it's really happened yet to any real extent, but I think the funding is still there for people and that potential gap is going to be there.

From that perspective, it is also interesting to look at the Asian fund launches in the space that is somewhere between private equity and liquid hedge funds. That sector also appears quite interesting to us. It is not something we will do in



a direct portfolio because of the liquidity constraints, but it's something about which we talked to a lot of our clients. I think people are still struggling to fund that space, and therefore it's going to be a big opportunity for investors. Sadly, one aspect here is that is that Asian investors got hurt so much in 2008, and to some extent they are still trying to wind down some positions they had in 2008. It's not taken off yet, but I think that this kind of asset-backed, secured lending strategies will be very interesting in the next three to five years.

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