



Opalesque Roundtable Series '16

MIAMI

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Editor's Note

Miami has become a destination for the entire world

Citizens of every country are looking to reside and work there, it is no longer about just one or a couple of markets that are looking at Miami. Over the recent years, Miami has developed a functioning ecosystem that supports all professional and lifestyle needs of people and businesses. The Miami Downtown Development Agency (Miami DDA) has been instrumental in helping many financial services firms migrate to downtown Miami to either relocate or set up a regional office. These firms range from very large multinational organizations to smaller, more boutique alternative investment managers and consultants which are represented on this Roundtable.

Even Chinese investors and developers are getting active, ahead of the implementation of direct flights. Many firms come to Miami to have the best possible access to Latin America, but an increasing number have also come because they "can," and technology allows them that benefit, and the right to live where they want to live. For example, Atyant Capital, an India focused hedge fund, has raised about 90% of their AUM since coming to Miami, and 100% of those new assets have come from university endowments and institutional investors.

Apollo Aviation Group, who runs a liquid hedge fund strategy from Miami, found that **office space prices are a fraction of what they were looking at in Connecticut**, with high quality living accommodations all within walking distance of an office. The firm also found it to be very easy to recruit talent, which was an initial concern. Graham Walsh, CEO and founder of \$1.2 bn hedge fund Prologue Capital, points out that it hasn't been his experience that talented managers are coming here to kind of semi-retire. Rather, in order to be successful in the long run, people decide to add fundamental quality to their lifestyles so that they stay healthy and do not burn out.

Traditional investments likely to disappoint, investors advised to include more alternative investments

The consensus view at this Roundtable is that we are in an environment where traditional investments are highly unattractive. Courtesy of global central banks, fixed income markets are in bubble territory, and companies spent their cash flow on equity buybacks and dividends rather than investing in their core business. History shows that if you buy a classic domestic 60/40 equity/bond portfolio at today's valuations and yields, the odds of making more than a low single-digit return over the next ten years are fairly slim, and the downside risks are substantial. Generally, a pension plan in the US requires a return between 7% and 8.5% a year, so this is not an attractive proposition. There will be opportunities in select global markets, but they will require timing skills and most importantly stamina.

The next ten years could well belong to alternatives. Because of regulations and structural changes in the industry, investors now have **access to a myriad of new opportunities that were simply not accessible before the crisis**. Substantial inflows will be coming from investors who are increasingly desperate to hit their required return target, be that a pension fund or a private investor. So we do think this is a great environment for alternatives, but **not necessarily for all** alternative strategies.

Capacity: Why smaller institutions should rejoice when larger ones exit alternatives

When you see a number of large US pensions moving away from hedge funds blaming high fees, or because a too small allocation to alternatives will not move the needle for them, the typical Board of Trustees of a smaller institution will not fight them, thinking that the large plans are "the real guys". However over the long-term, it is the beneficiaries who will suffer.

As the most attractive alternative investments will always come with certain capacity limitations, what **most smaller investors miss to realize is that they actually do have an advantage over larger institutions**. Size is not an advantage in this environment. Some people use the metaphor of a "house" of opportunities in this respect: If you are too big, you just cannot get in.

The Opalesque 2016 Miami Roundtable took place in November 2015 at the Downtown Development Agency in Miami with:

1. Graham Walsh, [Prologue Capital](#)
2. Gustavo Bikkesbakker, [Meketa Group](#)
3. Patrick Stutz, [Bayshore Capital Advisors](#)
4. Scott Paige, [Apollo Aviation Group](#)
5. Pratik Sharma, [Atyant Capital](#)
6. Nitin Motwani, [Miami Worldcenter](#), [Miami DDA](#)

The group also discussed:

- Why is consultant Meketa Investment Group open to meet with any investment manager, regardless of how many years they have been in the market, the duration of their track record. level of AUM or if it's their first fund?
- What is Miami doing to cope with the population growth and continue to ensure high quality of life?
- What are "crisis aftershock trades", and why are they still available?
- Finding yield in real estate and REITS
- Outlook: Are markets underestimating the amount of tightening which the economy will be able to absorb?
- What is the "10% down club"? And who is responsible for it?

Enjoy!

Matthias Knab

Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Patrick Stutz, Gustavo Bikkesbakker, Graham Walsh, Scott Paige, Pratik Sharma, Nitin Motwani.

Introduction

Nitin Motwani

Miami Downtown Development
Authority

My name is Nitin Motwani, and I am the Chairman of Economic Development here at the Miami Downtown Development Authority. One of the mandates of the Miami DDA is to show the world that **downtown Miami welcomes all forms of businesses in the financial industry**, and that we have developed a functioning ecosystem that supports all professional and lifestyle needs of such businesses. Largely because of our efforts, downtown Miami has recently witnessed a migration of many financial services firms who have relocated here or set up a regional office. These firms range from very large multinational organizations to smaller, more boutique alternative investment managers and consultants which are represented on this Roundtable.

I actually grew up in South Florida, and after starting my career with Goldman Sachs in New York as an equity derivatives trader, opted to come back to Miami to focus on real estate. I am involved with a large development project called the Miami Worldcenter, and we also have a real estate private equity fund called Encore Capital Management, which has just over a billion dollars of assets under management and is based in Boca Raton.

Pratik Sharma

Atyant Capital

My name is Pratik Sharma. I am the Managing Partner and Co-Founder of Atyant Capital. We are a value-oriented investment manager with an exclusive focus on the Indian markets. We currently manage a fund focused on opportunities in small and middle market equities listed on the Indian stock exchanges.

We have been in Miami since 2011, and actually relocated to Brickell Avenue in downtown Miami in 2014. Our fund just completed its 10th year. We're currently managing \$225 million in this strategy.

Patrick Stutz

Bayshore Capital Advisors

My name is Patrick Stutz, and I am the Chief Investment Officer of Bayshore Capital Advisors. We are a South Florida-based advisor that invests globally and opportunistically across all traditional and alternative asset classes. Next to managing a significant amount of partner capital, we offer a turnkey solution for a handful of independent Registered Investment Advisors, or RIAs, who use our expertise in due diligence to access alternative investments that are different from the plain vanilla alternative strategies available on the big wealth management platforms.

Originally, we operated as a fund of funds, but as the alternative investment industry has developed, we have shifted gears and gone down the path of customizing solutions for clients. We also run liquid portfolios, mostly using mutual funds and ETFs. Our solutions are entirely client-driven, but I would say our edge is in niche alternatives and other off-the-run investments which we view through an opportunistic global lens.

Personally, I grew up in Zurich, Switzerland, and moved to New York in 2002. I spent 11 years in New York, initially working as a traditional equity PM, later switching to alternatives for a blue chip FoHF, followed by PM roles at a hedge fund as well as an outsourced CIO. I joined Bayshore in 2013 as CIO.

Scott Paige

Apollo Aviation Group (AAG)

My name is Scott Paige, and I represent Apollo Aviation Group (AAG). AAG is split into two halves. The parent organization is a private equity organization that invests in mid-life aircraft subject to lease, and in many cases they take the aircraft at end of life to a part-out strategy. The firm has over 60 employees with offices in Miami, Dublin and Singapore. Dublin is relevant as it is the main worldwide hub for aircraft financing. Ireland offers favorable tax treatment for aircraft lessors and has the most extensive network of double tax treaties with jurisdictions worldwide.

We also have a liquid hedge fund strategy, which I started for Apollo Aviation Group about two and a half years ago. We invest in all types of aviation securities, including leasing companies, manufacturers; basically assets that have a CUSIP number and a certain degree of liquidity.

We have recently branched out in our marketing and distribution, and have partnered with Morgan Stanley Tokyo. They are distributing our products in the Japanese market, and are specifically targeting institutional investors.

The appeal of our asset class is that aviation assets tend to offer extremely high recovery rates in the eventuality of a bankruptcy. These are global assets that can be utilized in any global market, and there are a limited number of players in the market. Boeing and Airbus have essentially a duopoly in the market, so we and our investors are really able to get a handle on the supply and demand characteristics of the securities we are trading.

Regarding my background, I worked at Trilogy Capital for 12 years running their transportation group in Greenwich, Connecticut. Prior to that, I ran the global transportation group of Mitsubishi Trust and Banking Corporation for roughly 19 years.

Gustavo Bikkesbakker
Meketa Investment Group

My name is Gustavo Bikkesbakker, and I represent Meketa Investment Group. Meketa is an institutional investment advisor; our client-base all together has roughly \$800 billion in assets, and we advise them on roughly \$345 billion worth of these assets. These are large institutional investors, 99% of whom are US-based. About half of our clients are public pension plans, and the other half are Taft-Hartley pension plans.

We help our clients with their asset allocation and their manager selection. However, what makes us unique is that we have a large practice and focus on alternatives, specifically in private markets. We have over \$28 billion of our clients' money investments in private markets, including private equity and private debt. Around half of our research resources focus exclusively on private market.

Our main office is in Boston, Massachusetts. We also have offices here in Miami, in San Diego, California, in Portland, Oregon, and we recently expanded with offices in Chicago and London. The objective of our office here in Miami is to develop the Southeastern United States, and also to take our first steps into the Latin America market from both a client services perspective and also from a research standpoint.

I personally cover private equity managers in Latin America. We have been investing in those strategies for six to seven years, essentially we have been monitoring the region since that entire private equity asset class began to develop in Latin America.

As for my personal history, I am entering my fifth year with Meketa, having joined the firm when we launched our Miami office. Prior to joining Meketa, I spent 12 years in Boston, after moving from Argentina.

Graham Walsh
Prologue Capital

My name is Graham Walsh. I am the CEO and a Founding Partner of Prologue Capital. We are a global macro hedge fund manager specializing in sovereign interest rates and foreign exchange. We also have fixed income relative-value and inflation-related strategies.

We currently manage about \$1.2 billion, and are in our 10th year of operations with offices in London, Connecticut, and here in Miami. On a personal note, I grew up in the north of England and started my career at Solomon Brothers. I also spent 12 years as a trader at Greenwich Capital Markets in Greenwich, Connecticut before we launched Prologue.

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Matthias Knab

I would like to look at what is going on in Miami and what you are seeing on the ground here. How has the industry changed, and what are some of the recent dynamics and developments? Nitin, what comes to mind when you think about the last 12 months; were there any milestones, new trends, or new directions that you have seen in Miami that are relevant to finance?

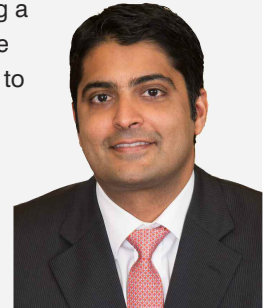
Nitin Motwani: The climate and wonderful weather is always what we are known for, but what has changed and continues to change is the quality of both the people and the lifestyle here. The restaurants, the culture and art-loving community, the hotels, and residential options have all improved drastically and have made Miami an attractive place to be.

Recently, I think everyone here has also seen the clear slowdown of the Brazilian economy and depreciation of the Brazilian real, and we have also seen struggles in Russia. What is fascinating to me is that despite a number of these economies struggling, we still see the momentum growing in global citizens coming to Miami with personal and professional motivations. To exemplify this trend, we now have 32 countries represented in the buyer profiles in one of our condominium projects. When you see that diversity, you can clearly observe the dynamic that **Miami has become a destination for the entire world.** I would say that citizens of every country are looking to reside and work here, it is no longer about just one or a couple of markets that are looking at Miami.

The introduction of direct flights to Qatar is another example of this global demand for a presence in Miami. Qatar's largest development company, Al Faisal Holding Co., bought the St. Regis in Miami for \$213 million, another Middle Eastern Group bought The Edition hotel. In 2015, Turkish Airways announced a direct flight to Miami. Miami is now truly on the map as a gateway global city. Our infrastructure still needs improvement, but is taking significant steps toward progress.

We have seen a lot of investments both individually in condominiums and property, and larger asset managers and investors are setting up companies here as well. The financial services sector has realized that having a presence here is not a problem as far as raising capital. A lot of people in our industry are realizing that the professional lifestyles we lead are very intense and strenuous, that it is a good thing and probably healthy to be able to balance your broader quality of life, whether that is with family, friends, or just on a very personal level.

So all of these components are coming together in Miami and it is really showing in the diversity and growth of our economy.



Matthias Knab

I have just spent some time in some of the Asian-Pacific financial and economic centers – Shanghai, Hong Kong, Singapore, Sydney and Tokyo – and I am wondering what is the interest or impact of Chinese investors and tourists on Miami at the moment?

Nitin Motwani: There are a few components that I think are driving that Chinese interest, and also renewed domestic interest. One is the expansion of the Panama Canal, which is due to open next year. We have also improved our infrastructure for that, for example by dredging our port to allow for a lot of companies that historically would have been based in Southern California for import/export businesses to come here. Also for those firms, Miami appeals as a hub to further send down goods to Latin America.



Many companies, especially from the Far East, are now establishing Miami as their gateway to Central and South America, and also the Caribbean. That momentum is introducing Miami to a lot of companies that are operating out of China and are looking to set up shop here to expand their organizations.

This is also forcing China to re-explore direct flights to Miami, and we have been promised this will happen as early as 2016, but most likely in 2017.

So we are seeing a lot of large Chinese developers looking at the Miami market. These developers have historically been focused on Seattle, San Francisco, Los Angeles, and New York. They have become very intrigued by Miami for a variety of reasons, including the diversity, the weather, the lifestyle, and the fact that we are also still significantly cheaper than a lot of these other cities.

We have seen some extremely large groups buying very large assets for cash, and looking to promote them to Chinese buyers, because ours is a market that is still largely untapped. So actually ahead of the direct flights from China, these folks are making very significant investments in Miami, and the same is true regarding the expansion of the Panama Canal where also numerous parties are making significant allocations within their organizations to be able to export to South America and the Caribbean.

Patrick Stutz

I would like to throw in a question. At the 2014 Roundtable, we spoke about how more investment firms are relocating part of their teams to Miami as it was becoming more commonly accepted as a location for the asset management community and for investors.

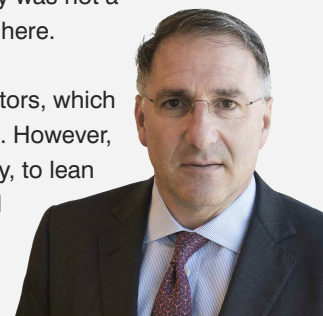
Since then we have in a way experienced a few setbacks, for example the collapse of Everest Capital. I was amazed how little that was discussed in the media, but it was indeed a major failure. I wonder, has that event slowed Miami's undeniable momentum?

Scott Paige: I would love to respond to Patrick's thoughts and his question. We set up our company here about two and a half years ago so that I could run my hedge fund strategy. AAG was already stationed here, and this was an important strategic base for them. My initial thought was that Greenwich, Connecticut or Manhattan were the ideal spots for an investment company to have locations, and I had initial concerns about Miami.

However, when I came down here for the first time and observed the environment and all of this high quality office space, I realized how sophisticated downtown Miami had become. **Office space prices are a fraction of what we were looking at in Connecticut.** There are high quality living accommodations all within walking distance of an office. The environment is very business-friendly, and most locations, including the Miami Airport, are easily accessible with connections to most places. In my experience here, I have not seen many detractors of this location from a professional or lifestyle perspective. It also turned out to be very easy to recruit talent, which was an initial concern of mine.

Addressing Patrick's point about the perception of alternative investment managers, my initial impression of this region when I first moved down here was that there was not a clean image of investment advisors and hedge funds which are based in Florida. However, I think we had already reached a turning point by the time we launched in 2013, where that negative perception was no longer a factor. As you can imagine, when setting up a business, I was hypersensitive to those investor concerns early on, but what I found that, as we started to have investor meetings, was that it actually was not a factor or concern. Any negative image and connotation had already dissipated by the time I moved here.

We did have our established parent company to lean on during our transition and in talking to investors, which is an advantage that other funds who are launching or relocating here might not have as a resource. However, those firms would have other organizations, specifically the Miami Downtown Development Authority, to lean on. I have been very pleased with our experience in relocating here, and at this point in time I would not even think about moving back to the Northeast.

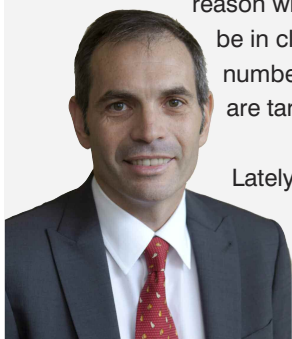


Matthias Knab

Regarding Patrick's specific question why Everest Capital's failure hasn't really affected Miami or Florida's reputation: In my view that hedge fund was one of many that we caught on the wrong foot when the Swiss National Bank unexpectedly let the Franc trade freely against the Euro and thus ending its three-year policy of capping the Franc at 1.20 a Euro. The Franc surged as much as 41 percent versus the euro on Jan. 15, the biggest gain on record. Of course, you could argue that Everest's currency bet may have been too levered, but I believe people viewed that failure as an investment gone awry, rather than a scandalous blow up that would taint the whole community.

On top, I think that there is still a certain respect for Everest founder Marko Dimitrijevic. Everest has been around for 25 years, and Dimitrijevic is an emerging market specialist who has navigated at least five debt crises in those market. Just that this one unfortunately went completely against him. I live in Germany and Switzerland is our neighbor, and I can tell you that he wasn't the only one who expected the SNB to maintain the peg against the Euro.

Gustavo Bikkesbakker: We see investment managers from all over the world come through our doors. With increasing frequency, we are now seeing investment managers who are establishing in the Miami area. In the majority of the cases, these Miami-area managers have some type of relationship with Latin America in their investor base or strategy, and that is the reason why they locate in Miami. The reason is often because they want fly into Latin America more easily, and be in closer proximity to their investor-base or their investable markets. As we all know, there is also huge number of events here in this region that are Latin America-focused, so Miami is a good spot to be in if you are targeting that market from an accessibility and networking standpoint.



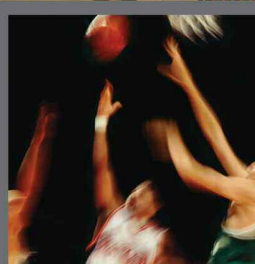
Lately, I have seen not only US-based firms establishing satellite offices here to provide a doorway into Latin America, but a number of different European managers who are putting down roots as well. The reason for this trend is the same; where there is a direct client relationship motivation related to Latin America, or to enhance their research capability into the region.

Graham Walsh: I would like to add a few observations on the benefits of our region. For anyone who is non-American by origin, I think that Miami is an extremely good city to set up in, because it is so international that anyone can feel very welcome. You will certainly be able to find compatriots from your country, if you wish. This internationalization that Nitin discussed is definitely raising the profile of the city.

Addressing Patrick's question about the public perception of our market, in my opinion there is a still a little bit of hesitancy on the part of investors when Miami comes up in their discussions. I think that the image of Miami as unsophisticated or as a less developed market is a perception that is gradually changing, and which will hopefully continue to change over time. Changing historical perceptions in the minds of investor communities is part of a long-term education and transformation process. It takes time, but it is definitely happening.

It also hasn't been my experience that talented managers are coming here to kind of semi-retire. In comparison to New York and London, this is a very good environment in a way, because you remove some of the excessiveness and noise. The culture and environment of those cities can be quite an overkill in different ways, and I think to be successful in the long run you do need to have some sort of fundamental quality to your lifestyle so that you stay healthy and do not burn out. This sort of climate here allows you to do that while still working hard and doing what you love professionally.





Downtown Miami is the new destination for alternative investment companies.

The Miami Downtown Development Authority is here to assist individuals and businesses expanding or relocating in Downtown Miami and to provide information and connect you with relevant resources.

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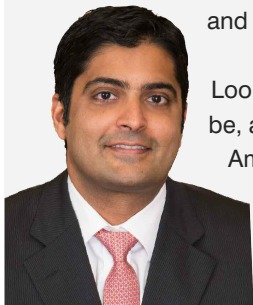
Graham Walsh

Prologue actually started with locations in London and in Greenwich, Connecticut, as a matter of fact. I moved here at the end of 2010, so I have been here for five years now. The decision was driven partly by the fact that my wife is American, and she was ready to move back to the United States from London. We were considering our options, and I certainly wanted to be on the East Coast. The time zone is relevant if you are trading global markets. We were looking for a location where the climate was a bit friendlier, because after eight years in London you do get a little bit tired of the gloominess.

Nitin Motwani: It is wonderful to have successful asset managers like Graham who have migrated here, and we also have many homegrown success stories. Bayview Asset Management, where my wife works, has grown to be a \$10 billion AUM hedge fund and is affiliated with the Blackstone Group. The private equity firm H.I.G. now has \$20 billion in AUM. Since Bruce Berkowitz has moved from the Northeast, Fairholme Capital has only grown both in success and in assets under management. Universa Investments is also a great story. We at the Miami DDA recruited that firm to move here from Los Angeles, and they have had no issue in raising capital.

Speaking to Gustavo's point, the Latin American theme of a firm residing here to have access to those markets is definitely relevant for some firms here. But there are certainly many other asset managers who have a wide variety of strategies and investor-bases, and have found great success in the advantages that Miami provides. Universa is not focused on Latin America, and has experienced a very smooth transition and continued success.

There are currently a lot of other major funds that are here and are looking at our jurisdiction. You also have to consider where CEOs and other high powered executives want to be. Successful executives like Lloyd Blankfein and top partners at Goldman have purchased condominiums at Faena House, and Leon Black from Apollo Global Management also has a residence here, for example. Carl Icahn has a house in Indian Creek, and his son is also looking around at opening up shop here. It has become a common conversation, where everyone actually knows someone who is looking to come down here, and I do not think that this trend is going to change for all the reasons that we discussed.



Look at a fund like Atyant Capital, with Pratik looking to invest in India. Why are you in Miami? Because he can be, and technology allows you that benefit, and the right to live where you want to live. The ties to Latin America are still significant in driving the demand to live and work here, but the key advantage to Miami at this point in time goes back to what Graham said. You can have the flexibility to finally live where you want to live in a comfortable environment while conducting business globally. Miami gives you that platform.

Pratik Sharma: Our firm has raised about 90% of our assets under management since we have been in Miami. Of those assets that we have raised, 100% of the new assets have come from university endowments and institutional investors. So in our experience, living here is definitely not a hindrance to capital raising. We can all speculate as to what is and what is not happening on the buy and sell-sides, but our firm is a real life example that displays the ability to succeed here, and also to appeal to institutional investors

I think it is important to be mindful of the theme that we are all trying to compare Miami to London, or to New York. Miami is not trying to be London or New York. First you have to consider the size of this city. New York has 8 to 9 million people, and here we have 1 million. People sometimes question if there is a dearth of investment professionals or talent here, and sure, this city is one-ninth of the size. Do you expect to find the same number of portfolio managers here that you find in New York? That is simply not feasible.



But in that context I also believe that we as an industry don't have sufficient appreciation for long-term trends and change, and how it takes time for certain things to play out.

One of the biggest challenges or concerns that I have heard from managers relates to the availability and the abundance of choice when it comes to investment professionals, and in some ways we have experienced that ourselves. So, finding operational and administrative staff is relatively straightforward and easy, but it can be hard to find the right high quality investment professionals compared to a much larger market. But that has not deterred us from finding good people and growing and scaling our firm successfully.

There are two ways that firms like mine actually find investment professionals. You either find people within the industry, or you essentially groom people straight out of school, or younger professionals who will take on a more junior position.

The industry is growing regionally, so the pool of people who will become available to potentially join an organization like ours is growing as well. The more that firms like ours actually focus on grooming local talent and building their experience, three to five years down the line those professionals will be able to contribute to firms in this region. The process of building an investment community and also a professional talent pool is constant, and gradual.

To quote Wayne Gretzky "You don't skate to where the puck is, you skate to where the puck is going to be." I think about that, and I know where the puck is going regarding Miami's financial community, which is what makes Miami an interesting place to conduct business, raise capital, and have a high quality of life.

Graham Walsh

So do you actually look at graduates from local universities like the University of Miami?

Pratik Sharma

Yes, we certainly do. If you are looking at a candidate from a top school like Harvard, for example, it is hard to apply an apples-to-apples comparison with students from some of the regional schools here. But there are still very qualified and intelligent candidates, and it is up to us as leaders of our organizations to develop this talent, and to mold individuals who have the raw materials into professionals who can be high performers

Graham Walsh

If I have concerns, they are with regards to the city's infrastructure handling the population growth, and in the school system.

In the time that I have been here, the traffic has become much worse. The city needs improvements in that area. We also need to think about public space, and improve the school system if we are to develop more investment professionals and attract a larger population in general.

Nitin Motwani: Graham brings up some good points, and I think Pratik's allusion about moving to "where the puck is going" is relevant to address these issues. There are a myriad of people here who need to get ahead of these changes, it is not just us as investment professionals. On the developer side, our entire project is designed to incorporate transit-oriented development, LEED certification, full live-work-play, office, hotel, retail, residential, and also public spaces considerations. The reason for that is simply that as cities urbanize, people do not want to travel as far.



On the other side, as my traffic engineer told me, when people are not complaining about traffic or parking, then you do not really have a city. So the good news is that our people are complaining about traffic and parking, because we have a true city, and we are growing, but surely the bad news is that our infrastructure has not kept up to speed to accommodate the growth.

I can say that from my perspective and my role on the Downtown Development Authority's Board is that we have been pushing for transit and infrastructure investments in each of the seven years that I have been on this Board. Some politicians are completely in favor of these changes, and some are totally against them. We have seen significant capital investments allocated to improve the highways out west, but not for the infrastructure in the urban core where the population density is increasing. To me, this approach makes very little sense.

In the last 12-18 months All Aboard Florida, which is a subsidiary of Fortress Investment Group, has played a significant role in bringing the issue of neglect of our urban infrastructure to light. They are bringing a \$2.5 billion privately funded passenger rail project to downtown Miami, which will go from Fort Lauderdale to Palm Beach, and to Orlando. It will connect 28 cities in the Tri-County area.

That project is extremely important, because citizens and developers are suddenly thinking about transit-oriented development. They can build residential and commercial buildings adjacent to trains so that people can live as they do in some of the major global cities, such as London or New York. What we have seen now is that every politician in every meeting is talking about this rail project and also the need for improved infrastructure, so that we can advance as a city.

So for the first time there is a call-to-action by both the private sector and the public sector, and all parties are trying to figure out how to enhance these efforts. These developments will not happen overnight, it will take a decade for these projects to be completed, but now there is some actual, tacit momentum and action. There have been conversations for 20 years about connecting the beach to downtown Miami, or connecting all of these cities along the East Coast of Florida. People have been talking about these projects forever, but now companies are actually executing Request For Proposals (RFPs) to try to get folks on board and drive these projects forward.

The school system improvements are vitally important. We are fortunate in that the Superintendent of Miami-Dade County, Alberto Carvalho, is ranked as the number one superintendent in the country. He has done phenomenal things in our public school system. The reality is that the diversity of our city creates innate challenges, because if you have, as I mentioned regarding one of our condominium projects, 32 countries represented in this one building, you probably have 28 different languages represented. So how do you keep up with that kind of pace of diversity? The future of America will be looking to Miami for this solution, and to see how we handle this dilemma.

Our schools are advancing very well, but they are also transforming in dynamic ways that are different from how usual school systems works. Our system does not work as it might in the Midwest, for example, where 90% of the citizens speak the same language, and possibly grew up in the same town. We have to think more outside of the box to tackle these cultural and educational issues.

The private school system is interesting as well. Even in cities with high taxes like New York, Los Angeles and San Francisco, many people still send their kids to private school. We do not have the private school capacity for the flow of wealthy community members that are coming to Miami, and who are used to sending their kids to a private institution.

I will say that there are great schools from the Northeast, from Europe, and from South America that are realizing the diversity and potential of Miami, and are looking for real estate to proactively set up schools in the urban core and around the periphery. This includes charter schools and even our public school system.

So in conclusion, regarding Graham's concerns about infrastructure and education, I think that for the first time in the last 12 months everyone is now focused on those exact issues. There is no clear-cut solution yet, but there is a call to action on both fronts, and we are seeing actual progress.

I would like to turn to the sector of alternative market investments and the need for them. Some of you work with Independent Financial Advisors (IFAs) or Registered Investment Advisors (RIAs), and some of you work more with institutional investors.

Could you please give us an update about the reception, potential issues, or the status of alternative investments with your investors? Patrick, please give us some insights as to what is going on with your firm and your investment community?

Patrick Stutz: I spent the initial years of my career exclusively managing traditional investments, followed by a few years with an exclusive focus on alternatives. I swore to myself that I will never work in one of those exclusive boxes anymore and restrict myself to any asset class or strategy.

At Bayshore, we try to approach the world with an open-minded investment philosophy, scanning across the investment spectrum for the **best risk-adjusted investments, no matter whether they are labeled alternative or traditional**. We are first and foremost investors, not allocators.

Now, **my view today is that we are looking at an environment where traditional investments are highly unattractive.**

Courtesy of global central banks, fixed income markets are in bubble territory, and companies spent their cash flow on equity buybacks and dividends rather than investing in their core business. History shows that if you buy a classic domestic 60/40 equity/bond portfolio at today's valuations and yields, the odds of making more than a low single-digit return over the next ten years are fairly slim, and the downside risks are substantial. Clearly this is not an attractive proposition. There will be opportunities in select global markets, but they will require timing skills and most importantly stamina.

We therefore firmly believe that the next 10 years will belong to alternatives. We expect the industry to continue to receive substantial inflows from investors who are increasingly desperate to hit their required return target, be that a pension fund or a private investor.

So we do think this is a great environment for alternatives, but not necessarily for *all* alternative strategies. We are not excited about the opportunity set for hedge funds that operate in the traditional public markets as they are likely to become expensive conduits into unattractive markets. Given hedge funds' spotty track record in making money on the short side, we think they will struggle to add any value. We will focus our efforts on niches such as CTAs, volatility strategies and various sector specialists.

What we are excited about is a narrow range of very specific opportunities, which are still largely the result of the 2008 financial crisis. We see huge opportunities in what we call "**crisis aftershock trades**". Many of them require investors to have a longer investment horizon in order to capture the attractive yields they offer. Many of these opportunities are the result of the partial withdrawal of global banks from many businesses, including direct lending, asset-backed lending, trade finance and various specialty finance opportunities. Given the huge leverage banks employed pre-crisis, even a moderate retrenchment results in substantial funding gaps which can be exploited by alternative investors. The second order of trades we take advantage of comes from need of big banks to clean up and optimize their balance sheets. Nonperforming Loans (NPLs) and capital relief transactions offer attractive entry points at this stage. Other opportunities are evolving as we speak, mainly in the credit space, which is facing increasing pressure at home and abroad. We see a great deal of opportunity in these particular asset classes, but to be successful requires deep knowledge and experience of alternatives and the underlying strategies.

We also don't think that size is an advantage here as many of these strategies are capacity constraint. We like highly specialized managers that can capture these illiquidity and complexity premiums. In my view, **the** trade for the next 10 years will be the capture of various illiquidity premiums. Liquidity is challenged globally and this is unlikely to change very soon.



Gustavo Bikkesbakker: We represent the institutional investor perspective, and we share exactly the same long-term view as Patrick, and maybe even a bit more exacerbated by the fact that our clients are often pension plans, who have an untouchable liability in the future.

Generally, a pension plan in the US requires a return between 7% and 8.5% a year. As you can imagine, with the current environment, even a 3% return with a 60/40 plain vanilla portfolio is challenging. Regardless of your philosophical stand or preference of investing in either US or international markets, or in traditional versus alternative investments, **as a pension, you really have no option other than to move away from the 60/40 allocation.** If you won't move, it's very unlikely to get the required 7.5% to 8% return. Some experts might argue that the 7.5% to 8% projection is too high, but even if you reduce this pension fund investment return to a 6%, today it is still not feasible or very unlikely that you can get that return with the 60/40 traditional model.

The result is that from an institutional perspective, in general our clients are forced to look into other alternatives, and we are helping them to take this direction. Those alternatives, which Patrick discussed, are often hedge funds and private equity products. The beauty of working with our clients is that they are long-term focused, and usually looking up to 20 to 30 years down the road. They recognize that private equity, private markets, and some illiquid hedge fund opportunities, which Patrick alluded to, are options for them.

We put significant effort into educating our clients about the composition of the worldwide GDP, around 50% of which is actually outside of the US. As investors, not only do we need to look there for some ancillary opportunities, we are actually forced to look to these markets to participate in the global growth.

It is important to be aware that internationally, there are some markets in which public equities are not representative of the consumer growth. Latin America is a good example. Latin America has been a story of internal consumption growth. But, if for example you just look at the biggest traditional public market, Brazil, you will find that consumer growth only represents less than 20% of the total public equities markets.

If you want to trade based on the principle of consumer growth in Latin America, you should definitely be looking at asset classes other than the public markets. This is where Latin American private equity or other type of alternative will come into play and become vital for institutional investors.



Municipal and state budgets are not overflowing with cash reserves, so the money that plan sponsors may contribute to their plans will not be sufficient to replace the shortfall in investment returns. Institutional investors then are forced to look into alternative investments in a prudent way.

What has actually worsened the situations for the pensions and consultants alike is that some very large public institutional investors have recently decided to move away from hedge funds completely. There has been some level of scrutiny on the layers of fees for alternative asset managers.

Matthias Knab

Gustavo, I understand this leaves you and your colleagues in a difficult spot. I wonder, how do you then convince these public pension funds that having alternatives in their portfolios is in their best interest?

Gustavo Bikkesbakker

We do this through education. We bring in our analysis together with our best ideas.

Education is an enormous factor and at the heart of our relationship with a client, together with the investment advice. Actually, some aspects of the investment advice can be commoditized to a certain degree, but not the education. So, education is actually one of the most important services that we provide to our institutional clients, it is a vital part of helping the entire investment community to think outside the box about the long-term, and to consider not only traditional and US investments, but alternative and international investments.

Graham Walsh: Patrick and Gustavo raised some very good points about education. As they pointed out, when you look at the current high valuations in the equity market and poor bond performance, the appeal of alternative investments should not be a difficult story to tell. But we also know from a historical and macro perspective that there can be a lot of institutional inertia when it comes to shifting gears in investing, and this also incorporates certain emotional and behavioral elements in changing philosophies. But in reality, if you look at the numbers, it shouldn't be a difficult story.

Looking back into the early 1980s, interest rates were above 15% in the long end, and the bond market embarked on a 30-year bull market. Returns were probably about 6% or 7% in real terms during that time. Those bond returns are not available now. With long-term rates now at around about 3%, that is what you are facing down for the next 30 years if you just buy-and-hold bonds.

Similarly, during that bull market the equity markets went along for the ride and benefitted from not only low interest rates, but also from extraordinary periods of growth during that period of time. Looking at the world now, what is the outlook for global growth? The numbers are quite low, particularly in the developed world, where next year we're talking about a 2.3% International Monetary Fund (IMF) estimate for growth. If you tack on 1.5% inflation on top of that, you are still only talking about a 3.8% nominal growth.

Over the long run, the available returns in the investing community are really just the same as the available returns in the economy, and so now we are looking at an outlook which does not project explosive growth and does not project high inflation. Neither of those scenarios is on the horizon, so the story of alternatives and their value is quite straightforward when you look at the markets from that sort of aggregate sense.

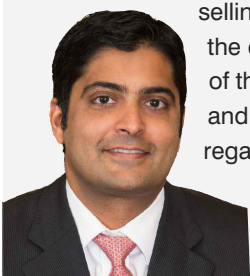
Those investors that can appreciate the historical progression of the markets and what is coming on the horizon are also recognizing the reality of these return scenarios going forward. They are then more likely to shift allocations to alternatives, because this additional potential return is requisite if they are going to even get close to the 7% to 8% targets that pensions and may others have.

Patrick also mentioned some of the opportunities that he finds attractive. I agree with him that there is a transformation going on in the banking system right now which has been brought along by regulation, and that is providing opportunities. Particularly, the intermediation which these banks provide is far less substantial than what it was in 2006 and 2007 and before. It will take significant time for other parties to fill those gaps, and I think in that transformation period there will be opportunities for a lot of private funding to take place. To the extent that institutions are willing to get involved in that space, I think that will present opportunities for them.

Many investors and managers are looking outside of the traditional alternative investment models at new opportunity sets like these "crisis aftershock trades", as Patrick called them, or however you want to label these trades. I would also agree with Gustavo in that most managers now are also looking global and becoming global because the higher rates of return could well be found overseas.



Nitin Motwani: On the subject of transitioning and adapting to investors' demands, we have made a progression in our structuring and strategy. Our first fund was a distressed fund. Our second fund was an opportunistic fund. Our third vehicle was a private REIT, because we were finding investors who told us, "You are building these apartment buildings and selling them. We are happy and are making a nice return, but we would rather own those buildings and control the cash flow because it is better than what we are going to find in more traditional ways of investing." Because of that feedback, we decided as managers to change our structure, which had previously required us to exit, and we set up a private REIT which would allow us to all own these buildings for a long time. Specifically, regarding this REIT, I am talking about urban infill apartments that are brand-new and transit-oriented, as we are trying to support in practice the themes from our earlier conversation.



We now have offices in San Francisco and L.A., and we are doing deals in Texas, Arizona, Oregon, and in New York as well. As we look through all of these markets, we find ourselves in a unique position to be able to find yield, because we can vertically integrate ourselves with capital and development. By doing that, less fees escape which allows us to give better returns to investors that are willing to wait in a private equity model. So for us, this unique situation in the market with some large institutions moving to private equity has proved to be helpful.

Matthias Knab

Let's stay on this topic of real investment opportunities to create returns for your private investors and institutional clients. Graham, what specific strategies and trades do you see as attractive?

Graham Walsh: Our focus with a global macro strategy is probably slightly different than a number of people around this table. Many firms and investors have seen some fairly high profile challenges in the last couple of years in the macro space. I think that the current outlook is changing for the better, and that the opportunity set going forward is extremely promising.

One of the things that I look at and cover are interest rates. Specifically, when central banks shift their rates, this presents opportunities for us. Right now we are on the verge of witnessing the Fed implement the first rate hike in a long time, which I personally think will be the first increase of several. We have not seen the Fed raise interest rates since 2006. We have had rock-bottom interest rates for a very long period of time, so this will be a very significant policy shift.

My feeling is that **the market is underestimating the amount of tightening which the economy will be able to absorb**. It is natural that after all this time there will be a sort of inertia in the marketplace about the capability of the Central Bank to raise interest rates without derailing the path of the economy. I believe that the Federal Reserve and the investor reluctance to adjust to the ripple effects of the rate hikes will create attractive pricing opportunities for us.

The European Central Bank is going in other direction. They have an upcoming meeting where they are expected to actually cut rates. So, we have the two central banks in the two major developed markets going in opposite directions. It is creating a rather unique situation with a lot of challenges for the investing community to assess.

What that means for experienced macro managers like Prologue, is that it creates a background of uncertainty and an environment of change, which is exactly the type of environment in which we like to operate. I will add that globally, most central banks at the moment are in motion and have policy change on their mind. China is cutting interest rates and trying to come up with creative measures to maintain their rather high expected growth rate. Other Asian central banks are in the same situation.

Different European banks like Sweden, Norway, Denmark and Switzerland are trying to follow the European Central Bank's (ECB) lead in cutting interest rates. Emerging market countries which have gone through a rather nasty commodity price shock and whose economies are struggling are also being forced to respond with policy measures. There is an extreme amount of policy shifts and other activity occurring in the global economy, and for us that creates excellent opportunities.

Within currencies, the US Dollar really went into a bull market in 2011. It started off slowly at first, and then began to accelerate significantly from the beginning of last year. These Foreign Exchange trends tend to last for a long period of time, so I would expect the dollar bull market to go on for several more years. That is another example of the type of opportunity we can capitalize on.



Pratik Sharma: When we talk about developing markets, Graham alluded to currency challenges. Brazil has been the big standout in representing those difficulties, and we are seeing some ramifications of that firsthand here in Miami, because a lot of Brazilians are moving here. A friend of mine who is of Brazilian origin was joking that if you go into North Miami Beach, it seems like it is a Little Rio there now with the huge influx of Brazilians who are migrating. We are seeing that in the private banking space as well, and while I don't have specific capital flow information about this trend, there is a lot of anecdotal evidence, the Brazilians are definitely here at Miami.

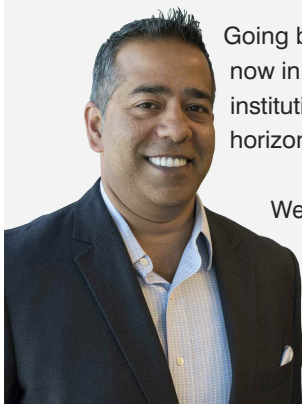
So we have seen the emerging market currencies struggle tremendously against the US dollar. Depending on your perspective, Jim O'Neill either did everybody a favor or a disservice by grouping together all of the big developing markets as the BRIC economies. When you look at Brazil and Russia, they are large commodity exporters, so with the collapse of commodity prices these economies have gotten killed. This is being reflected in the Forex and equity markets, and probably even their credit ratings and sovereign debt outlooks.

Most developing countries, including Brazil, were basically selling all of their commodities to China. As an example, if China is consuming 50% of the world's copper output for five straight years, that is not a sustainable trend over any long duration of time. We are now seeing the reversal of that trend, and Chinese growth is slowing down, hurting the commodities exporters. The one developing market which is actually really benefitting from this shift or Chinese slowdown, is India.

If you look at all developing or emerging country currencies and all commodity exporter currencies versus the US dollar, the Indian rupee has probably been the strongest currency amongst the developing basket over the last 18 months. You have a proactive central bank and excellent central banker there in Raghuram Rajan. He has done a very good job of taming inflation, and in keeping rates purposely high longer than anybody really wanted, including politicians and business leaders.

Furthermore, India is a net commodity importer. 80% of its oil is imported, in addition to the importation of huge amounts of other raw materials as well. This is a country that is actually benefitting from lower oil and commodity prices.

India was never an export-driven story. 85% of the GDP is actually domestic demand-driven. When you have commodity prices come down and input costs come down across the board, the cost of goods to meet rural demand for the average Indian consumer have dropped. India is therefore experiencing a consumption boom that people have not seen before. We are talking about an economy that is looking to grow at 6% to 7% for the next four or five years. Interest rates are coming down now. The country certainly has its issues, we are not trying to be overly optimistic, but there is a lot to look forward to in India.



Going back to what Patrick said, we are also seeing opportunities because illiquidity premiums are so high now in the Indian market. There is a tremendous preference or bias for liquidity and low volatility today, so for institutional investors with longer horizons, if you are willing to take on that three to five-year investment time horizon, returns can be tremendous. That time horizon fits with our investment philosophy.

We are having a good year, not because we are geniuses, but because we have a well thought idea generation and idea evaluation process that captures illiquidity and volatility premia. We get comfortable holding investments for multiple years by making sure we de-risk the investments by seeking large margins of safety and significant upside. This is done through exhaustive upfront research.

Scott Paige: We at Apollo look for dislocations and predictable cycles, and we are squarely an alternative vehicle. I like to look at the major global macro factors as the "four forces of evil", and you have each touched on some of those. They are: foreign exchange, interest rates, GDP, and global events, which combine to incorporate all economic, political and inflation dangers. Those four factors are the driving forces that push and pull the markets from a global macro standpoint.

The backdrop to the current environment is that we have never really seen China stumble before. When I gave my personal background earlier, I did not mention that I started my career with the Bank of China. I spent the first two years of my life working within the Red Chinese bank, and they have been on an accelerated growth path for my entire career.

Today's environment is the first time we have seen a serious reset of the Chinese market. It was very interesting to see how they handled that reset, when the Chinese stock market fell so drastically earlier this year, and I think the Chinese Central Bank handled the situation quite admirably. You may disagree with some of the actions of the Central Bank, such as the limiting of short-selling, limiting trading volumes, and limiting leverage, but for the most part you saw very adept and active participation of the Central Bank. In my opinion they really stepped up to the plate and did calm the market to a large degree.

We are indeed looking at a very reduced growth rate in the future. China was the core commodity consumer of the world for a long time, which translated into the shipping of high volumes of copper and ore out of Latin America and Australia, thus keeping shipping rates high, ports full, and so on. So we are seeing a serious reset to normalized growth, and I think that the global markets are still reverberating from those events.

Patrick and Graham spoke about liquidity and the exit of the banks from a number of businesses and asset classes. The big banks used to hold very large positions and were always able to pick up positions out of price to stabilize markets. There was therefore a major buffer in the bond markets. I am not as certain about the equity markets, but there were always players who absorbed excess liquidity. But now, when we had major sell-offs earlier in the year, there was a buyers' strike, with no intermediary that had previously been there, has now vacated the market. I think the lack of that intermediary exacerbated the volatility.

We have also seen the entry of Exchange Traded Funds into this new market. I call the ETF market the "10% down club." Every day I wake up and ask, "Who missed their earnings and who joins the 10% down club today?" In previous markets you were not taking brand named companies taken out to the woodshed for a 10%, 15%, or 20% shortfall in earnings estimates. Forget the Valeants, I'm talking here about what that the retail sector went through it in the last week-and-a-half, just as an example.

In the past, maybe when a firm missed an estimate, they would be off five or ten percent, but with ETFs, a whole new dimension of program-type trading comes into play that is probably not so much followed by traditional trading houses. Many ETFs have a trigger to trade and therefore stimulate far more volatility in the markets. I think we can all agree it is a harder market to trade. At the end of the day, it does create volatility, and that is where the opportunities come from. We look for dislocations, mispriced markets and mispriced securities in order to take advantage of them. But I do think it is a new frontier out there, and realities we all might have been familiar with in the old days will look drastically different going forward.



Matthias Knab

Scott, I would like to hear a bit more detail about your strategy. Are you more short-term and tactical, or what is your holding period?

Scott Paige: We do have shorter liquidity terms for some of our investments. As I mentioned, everything we invest in has a CUSIP number, and everything takes a daily price. We have the ability to provide liquidity if we need to, but we do take a much longer view. We are of the opinion that in order to fully maximize the return on some of these investments, you need to take a longer time horizon than an ETF, which has 24-hour liquidity.

We aim to find high value, good assets which are in a bad neighborhood. There are plenty of so-called "bad neighborhoods" around the world where we have seen markets ravaged for one reason or another, whether from currency valuations or a commodity impact.

Aviation opportunities are largely an infrastructure play. Look at a country like Brazil, which Pratik spoke about earlier. Brazil does not resemble Europe at all. There are no high-speed rails, there are no autostradas or high-speed highways. If you are traveling from one part of the country to the next, you are going to fly. Although business may have moderated in that country, it cannot continue to grow along with the population because the infrastructure is so underdeveloped. There will therefore definitely be a greater need for air travel in the future than there is today. Based on that assumption, if you are investing in core aviation assets – and they are universal assets, which is the beauty of the asset class – there will always be a need for those universal assets either in Brazil, or in the worst case scenario, a need or demand somewhere else in the world.

The forecast for aircraft over the next 20 years is \$5.5 trillion, which is based on an estimated 38,000 new aircraft. That is a combination of aircraft that are required for replacement and growth of aircraft miles at approximately 5%. These numbers come from Boeing and Airbus projections, and they have been accurate to their projections for the last 25 years, so I think it is certainly a credible number.

I believe that their estimation is correct, because aircraft are long-lived assets but they do not last forever. They need renewal and replacement, and parts of aircrafts are limited to a certain number of hours and cycles. At some point, aircrafts need to be scrapped, renewed, or replaced, because at a certain point it is requisite to move on to a newer generation or more fuel-efficient aircraft.

That future projection provides us with a good environment in which to lend against these critical assets, and I think the assets are indeed reflective of the status of global economies. We follow fairly predictable two to five years peak-to-valley cycles. Some are deeper and some are a little bit more shallow, but these cycles are generally predictable. We can play the cycles on the way up and on the way down, and we have the ability to go long or go short, or change the region of the world in which we participate. The factors impacting my market are really no different than any of the other gentlemen at this table, because we are all dealing with the rising rate environment here in the US and some other struggling economies.



When you look at the world economy, not all the cylinders are in sync, and it is very difficult to balance those markets. Some developed countries are very concerned about creating further imbalances and have held back on actions they could have implemented sooner. I think we are headed for a rate rise environment here in the US, and Europe is still stimulating its economy in conjunction with an immigrant crisis, so there is never a dull time from a global macro standpoint. We just have to be aware of these trends, and be opportunistic about where we invest.

Patrick Stutz: If you look at what happened over the last six to eight years since the financial crisis, the crisis and the regulators' response led us to the point where a lot of markets are quite unattractive. However, the result has also been **a myriad of new opportunities that were simply not accessible before the crisis.**

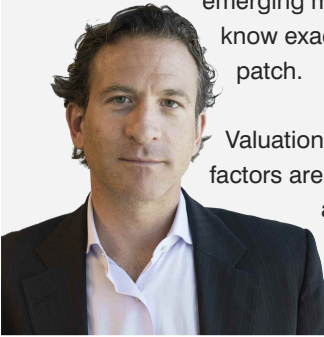
We have seen so many teams spinning out of big banks and continuing exactly what they have been doing for years, essentially becoming start-ups with a 10-year track record. Banks are not making rational business decisions, they are just trying to stay ahead of regulators. We like that. If banks don't want that business anymore, we are happy to seize those economics. This trend results in a growing list of investable opportunities that were previously not available to private investors. We never realized until now how diversified the businesses of these banks were; they were involved in absolutely everything.

Changes in technology are adding further pressure on banks. Marketplace lending and small business lending is growing dramatically and is becoming an investable space. If you look at how your typical dry cleaner or deli in the U.S. is funding himself, these businesses are charged interest rates equal to a bakery in Nigeria! It is completely insane, because they are paying outrageous funding rates of 30%, 40%, or 50% for loans over \$25,000 or \$30,000. No bank will touch them. Approached in a sophisticated way, these are alternative investments worth considering in a low-return environment.



Patrick Stutz: The result is that ironically there is so much more opportunity today that we can tap, despite the fact that the world, politically and economically, is a mess and we are probably looking at a sustained low growth environment. As a result, if we can lock in opportunities that are reasonably safe, where we can get a 8% to 10% return over a longer time horizon, that will make a huge difference over the next five to seven years, considering your alternative which is to play around in traditional asset classes.

Lastly, I want to point out that not every liquid investment is doomed to have poor performance. Today, no one wants to touch emerging markets, with possibly the exception of India. No one wants to touch Russia or Brazil, but we all know exactly how quickly things can change, and at some point, these countries will get through this rough patch.



Valuations have dramatically adjusted, and dropped to such a degree that a lot of the market risk and other factors are priced in. Those markets are a mess, but it is absolutely clear that eight years from now we will sit at another Roundtable and say, "How could we have missed this?" The way you generate great returns is by going to places that feel somewhat uncomfortable, at least. If you only want to invest in Apple and Facebook, I would say, good luck. It's going to be a really, really hard road ahead.

Pratik Sharma

Patrick, you referenced Russia and Brazil, and the theme of thinking six to eight years down the road. You indicated that investors are going to be kicking themselves for not having allocated to these markets. The current level of geopolitical and central policy risks right now are probably higher than I have seen them in a long time.

How do you get comfortable around rule of law issues, policy issues, and geopolitical issues around Brazil and Russia? Given those risks, how do you get comfortable with valuations in emerging and developing markets?

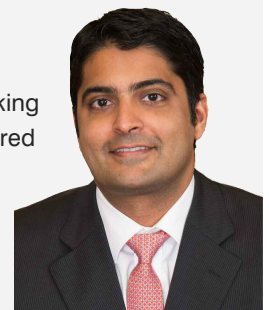
Patrick Stutz

To be clear, we have no exposure to Russia right now. I do not think we are in the position where we would ever invest there directly. Most of what we do in these countries is through someone who is on the ground or is an expert in that field. These countries come with very serious risks and that is why they are valued at current levels.

Nitin Motwani: From the real estate standpoint it is really interesting to watch the markets right now from an opportunistic standpoint. The last time the markets were booming was in 2007. Back then, because of the credit cycle, every real estate asset went up in every market. The levels each market increased may have varied, but because everyone had access to leverage, everything was worth more in essence. Everyone's house was worth more, every shopping center was worth more, and so on.

What we find very interesting this time around is that while debt is inexpensive, it is not easy to get from lenders. As a result it is really only certain specific markets that are doing very well and outperforming. You can look to Miami where condominiums on South Beach are now going for \$3,000 a square foot for the premium projects, or to New York where condominiums sell for \$15,000 a foot.

So, real estate prices are going through the roof in New York, San Francisco, and LA. But as we are all talking about what is next or flattening growth, there are certain real estate markets that still have not even recovered from the last cycle. In our business we have the philosophy now to shoot with a sniper rifle and not a machine gun, because in the last cycle you could leverage very easily, and all you had to do is put money in this space and you would have your returns. This time around you really have to know what you are doing in specific markets.



We are finding a huge premium in the ability to develop. If we buy an apartment building for example, we can buy at a capitalization rate of 4, or we can build to a 6. Because of the yield we take in with purchases like that, we made the decision to continue to buy, develop, and then exit. We can capture 200 or 250 basis points, which gives us a nice return, especially with yields as diminutive as they are today. Even if capitalization rates or interest rates go up, it is not necessarily a bad thing for us because by then we will presumably have better and the economy will hopefully be getting a little better rents, while in the meantime we have successfully put a 200-250 basis point buffer in place.

The challenge for this market has been that there are unique opportunities, but you have to screen very carefully because no two stories are the same. The other challenge is getting access to those opportunities, because they are not just readily available. They are created by professionals like the folks sitting around this table, and you have to dig to find them.

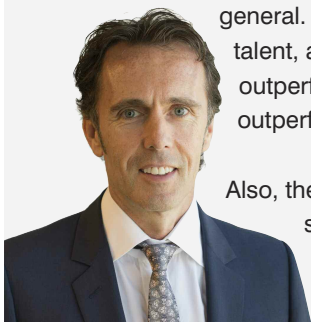
While there are a lot of professionals who left the big banks and who have great business ideas and concepts, some of them should not have been in business for 10 years, but they had the support of a big bank, but others do happen to be experts, and are very talented. On the flip-side, some of those experts could be doing the exact same thing as they were at a big bank, but raising capital as a new fund manager and getting off the ground is much harder as a smaller, niche player. A lot of the consultants will generally only focus on the huge managers because it is a much easier process to get them approved. That makes it much harder for some of the niche players to get off the ground and get started. So there are a lot of other fundamentals at play in my market, outside of what is going on in the broader base economy. There is programmatic shift in the way investments are set up and executed, and I think it will be interesting to see how this dynamic continues to play out.

From personal experience, despite our biased view that my partners and I were all well-qualified and diversified, and despite the fact that each of us had been successful in our previous careers and had experience working together, it was challenging to get investors to invest in our first fund. Now it is a lot easier to attract capital because we have our track record, but it also was in a way a shame it took some time to get investors to believe in us, because the opportunities we saw back in 2009 when we started this business were incredible. But it was very difficult to get off the ground, so I sympathize with a lot of the funds that are launching these days. The key for investors is to look for and find those new managers and then having that conviction and trust in them, but investors are not always willing to take that risk.

Graham Walsh: The word “expertise” was mentioned a couple of times at this Roundtable, and indeed it is the most critical element of the alternative investment businesses. Investors look at managers like us because of our deep knowledge to understand why we can actually outperform.

When you look at the overall investment space, you find a giant block of long-only money, and a giant block of indexed or benchmarked type money. If you are operating on a basis where you are not tied to those rules, then you have the potential to outperform. So that is the starting point. But then, as we have discussed, some of these markets require a depth of expertise, otherwise a manager will get tripped up, their entry and exit timing points will be off if they don’t know what they are getting into. That is why a manager does need to have depth of experience, but those who are choosing those managers also need to be knowledgeable, and very careful and conscious about what they are looking for. Deep expertise and careful thought are required on both sides of the table.

Regarding changes in the industry, one of the issues that managers are facing now is fee pressure, because the institutional investor base wants lower fees. That is understandable, particularly because overall returns have come down in general. But investors have to realize that the ability to outperform the available returns in the markets is a talent, and it is just as difficult whether you are outperforming 2% to 3% returns or whether you are outperforming 7% to 8% returns. There is a shortage of actual managers who can consistently provide that outperformance for you.



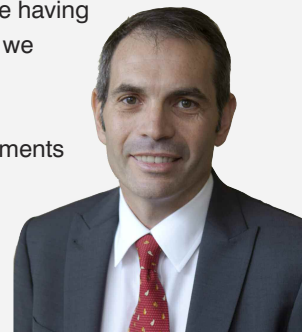
Also, the cost of running these businesses are going up significantly, largely because of regulatory change, so it is more expensive to operate a fund these days. I would agree that sometimes in the past, indeed in certain situations some of the fee structures could have been a bit excessive, but as an institutional investor today, I would not want to be squeezing the manager unreasonably.

Gustavo Bikkesbakker: To address Graham's point, we have been in this business since 1978, so we know that there are strategies and managers where it would make sense to apply some pressure on fees, however there are strategies where clients feel comfortable paying a certain level of fees based on quantitative and qualitative factors.

So, once more to Graham's point, we are all talking about the same, which is expertise. Definitely there are strategies and managers where we can look and see if we can get some fee break, but ultimately it is about opportunity, risk, return and prudent investment. So I do think that talking about fees is a valid discussion, and, for example, we are having more and more such conversations on the private equity side, but again, this is only a portion of what we consider our value-add for our clients.

The biggest value that we bring to the client is our ability able to assist in evaluating the qualitative elements of a manager, and here paying a higher or lower fees is part of the whole picture that we paint.

In summary, there are managers and strategies where a fee discussion will make sense, whereas for others it may not be justified for the reasons I mentioned.



Matthias Knab

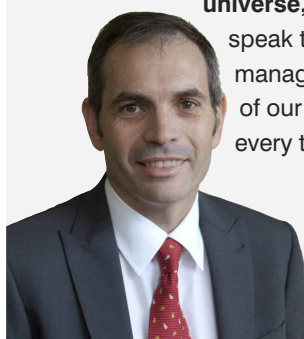
Gustavo, with some of the trends we have discussed, including specialized teams that are coming out of the big banks and many new funds setting up, as a consultant what is your take on the size and development cycle of a fund? Do you invest in emerging funds, or do you have a minimum AUM where you will take a fund seriously and propose them to your client?

Gustavo Bikkesbakker: The short answer is that is extremely difficult for an emerging fund to deal with firms institutional investors.

Let me explain you a bit more in detail how we actually work. Our firm's particular strategy in working with clients is to take a customized approach. I mentioned that we have close to \$400 billion that we advise, and we only have about 110 clients, so we spend a lot of time working with each organization. Our client to consultant ratio is one of the lowest in the industry, so each of us spends a great deal of time working with each client. That allows us to customize their asset allocation plan according to their future liabilities, objectives, or to the particularities of their respective organization. Public pensions are clearly different than endowments, private pensions, or a healthcare fund, so each institutional investor has idiosyncratic specifications and needs.

That means that we cannot and will not use a cookie-cutter approach in terms of an asset allocation, and we do not have in general lists of managers that we work with. I have to admit that as businesspeople and human beings, we tend to feel comfortable with a manager that we already know.

However, **by design our firm talks with absolutely every manager that we can find out in the alternative investment universe**, regardless of how many years they have been in the market or the duration of their track record. We speak to anyone, regardless if this is their first, second, or third fund or their level of assets under management. We do this by design and with a purpose so that we as professionals of our firm step outside of our comfort zone and listen to new ideas in the market. A huge responsibility of ours is to keep up with every trend and development in the market, so we must be very proactive.



Some clients do ask us for emerging manager programs and we will put those together. We also have other types of clients who have a myriad of specifications in their investment objectives. Depending on the mandate that we get from the client, a manager we find may or may not be a good fit for a particular investor, but it may be a fit for other.

I will give you a good example of why this approach makes sense. One of the private equity managers that I have had conversations with for the last five years was never quite the right fit for our regular type of institutional client; however, they were a perfect fit for a new client.

We have been doing this for decades, so we know how important it is to establish relations with managers. It is important to establish these relationships with managers whenever possible, because we do not know if they will be a \$5 billion AUM fund in just five years. We don't know, and really no one knows.

So it is indeed very difficult for a new manager, we realize that obvious reality. There is really no specific plan, relationship strategy, or roadmap that they can follow to grow their firm. Again, while it is difficult to get an allocation, and while it is a challenge for emerging managers to get a new allocation, it is always worth the investment of time to begin building a relationship, because this industry is all about relationships.

Pratik Sharma

From the manager perspective, my view is that managers sometimes also have unrealistic expectations.

For example, if a team decides to spin out from an existing trading desk, they will put together a pitch book, fact sheet, DDQ, and embark on a road-show to Greenwich, New York, Boston, and so on.

Matthias Knab

And Miami.

Pratik Sharma: Yes, of course, Miami! They expect to collect \$5 million checks by just showing up. That mentality is pervasive in our industry, and it is completely unrealistic. This is particularly true when you are looking to market to the institutional investor base, unless you have strong existing relationships. Even when you have the relationships in place, you are still looking at a three to six-month due diligence process assuming that your operational infrastructure is airtight.

An old mentor once told me that **there is no such thing as drive-by financing**. If you are a new fund manager and you expect to raise \$50 million for your first fund with drive-by financing and rushing through the capital raising process, you are going to be disappointed. But, if you have a strategic and structured marketing methodology which is repeatable, scalable, and every three to six months you are periodically talking to your prospects and continue to add new prospects to your pipeline, from my perspective that is the process that it takes to succeed. There is no silver bullet, and there is no magic formula. The key to success in my opinion is to continue talking to people and to continually add value.



Nitin Motwani: I agree with you, Pratik. As managers, in a lot of ways we are supposed to be optimists, even if our strategies are pessimistic by nature. That optimism is what drives our entrepreneurial spirit. We have witnessed the growing pains of new partnerships. Three people trying to launch their own fund is vastly more challenging than having a large bank's infrastructure behind you. As I mentioned, our first fund raising was indeed challenging. We were launching in 2009, when we felt there were great opportunities, but the capital raising environment was very difficult, and we were a first time fund.



To the point that Patrick made earlier, we knew we would eventually succeed. We did not know exactly when we would break through, but we knew that we had some great ideas where we could put money to

work. We have since earned that credibility, and as we raise capital for fund after fund, the process continues to get easier because we have proven ourselves.

As managers we understand our own backgrounds and our strategies, and we firmly believe we can succeed, so perseverance is the key. However, to your point, Gustavo, you have a lot of managers coming in and out of your doors every single day with that same expectation and attitude, so they are in a fairly crowded market place. Up-and-coming alternative managers just need to stick to their guns, believe in their system and process, and stay optimistic and determined.

Matthias Knab

Circling back to Miami, we talked about the manager's decision to set up here. They can set up anywhere, but what assistance will be offered for funds and managers coming to Miami to set up?

Nitin Motwani: The Downtown Development Authority has tried to act as a concierge for any firm looking to come here.

There are incentives at the state and county levels. The Miami DDA educates firms of all sizes of the value they can find here, not only in the less expensive office space and tax benefits, but in the growth of our business culture. However, some of those incentives are designed for firms who employ lots of people while in our domain of investments, that is typically not that much the case.

But we have also seen success stories with larger firms, like XP Securities. XP Securities intended on coming here from Brazil with about 20 people, and ended up with about 100 employees. However, for the most part, we have seen a lot of smaller groups who are starting out with two to eight people, and are launching or relocating here. It is an ideal situation for smaller alternative asset managers, and the Miami DDA helps to make the transition very smooth.

At the Miami DDA, we realize that the folks in all aspects of the financial services industry are accustomed to moving quickly when they make decisions, so we help them with understanding what office or staff might cost; as well as answering their questions about residential accommodations, transportations, schools and a range of other items. There is a great deal of support with idiosyncratic details that can be challenging.

We also help them on the networking front, by introducing them to not only service providers, but also to each other and other financial industry members. When we started applying this proactive effort, we actually found that a lot of the people in this industry did not even know the others existed. Some industry members prefer to have their independence and isolation, and that partly drove their decision to move to the area. That is completely fine and understandable, however a large majority of industry members do appreciate those networking opportunities. They enjoy spending time with like-minded folks and brainstorming ideas, opportunities, and business components such as fund raising. We try to provide a platform to help new folks moving in, but once people move here, we continue to help them network amongst peers.



Gustavo Bikkesbakker

I mentioned earlier that we were already aware of a big number of managers that are calling Miami their home base, and who have some type of relationship with Latin America. When we launched our office here, we wanted a location in which we could tackle two strategies; one is to have access to the Southeastern United States, and the other is to have direct and easy access to Latin America to visit managers and prospective customers. Miami was the right choice for us, and put us in position to accomplish both objectives.

The location also differentiates us in the Southeastern US, because from a competitive standpoint we do not see a lot of our competitors here. Some have a satellite office in the Atlanta area, but none have really made their way down here yet, the consultants in the Florida area are more local or regional in nature

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