



# Opalesque Roundtable Series '17

# MIAMI

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# Editor's Note

After having attracted firms like Universa from California, or David Tepper and Ed Lampert from Connecticut, Miami and the South Florida financial market keeps growing and expanding. All participants at this Roundtable came over the past years to Miami and have created alternative investment firms or run strategies here, or they invest in them from Miami. Local investors are excited about their ability to tap into quality professionals and the development of a buy-side culture which is increasingly complementing the traditionally strong private-banking side.

Away from the “echo chamber” of a New York or London, the managers in Miami are convinced they are ideally set up for independent research, allowing them to come to conclusions which are “clean,” i.e. objective and unbiased. There is also a strong sense of community and cooperation not seen in the major asset management centers. However, while more and more hedge funds and alternative investment managers succeed operating from there, this doesn't mean there are no challenges.

## Maybe the current emphasis on (avoiding) volatility needs to be reconsidered

Howard Marks talks about the idea that volatility is not risk, so long as you can tolerate it. But today, it seems that different investor types who, based on the nature of their semi-permanent or permanent assets, theoretically could stomach volatility, are not willing to. Their demand is for lower volatility products, and the hedge fund industry will eventually react to what the clients want.

*But in this case, when clients are potentially focused on the wrong factor, maybe it's only natural that hedge funds, in reacting and managing for lower volatility, will also earn far lower returns.* For example, equity hedge funds are among those who tend to be hedged during environments like the one we are in, *but unless you were 100% long, the entire time from January 1, 2009 until now, at least in most markets, you'd be underperforming.* So maybe this current emphasis on (avoiding) volatility needs to be reconsidered, especially for institutional investors. With such large pools of semi-permanent or permanent assets, well then, volatility is your friend.

## Understanding the healthcare revolution: How to make money in biotechnology, pharmaceuticals, and specialty pharmaceuticals

Dr. Shaheen Wirk, who started his fund with a seed from Julian Robertson, graduated 13 years ago, and the difference between then and now in biotech and pharmaceuticals is that the technology and the science has now become widespread and affordable. *Wirk said that when he was in medical school, anyone who was doing meaningful science or creating anything that mattered in the medical field worked either at a place like Pfizer or Harvard. That is no longer the case.* There has been a vast dissemination of the skills, talent, and tools of discovery while the costs have simultaneously come down. The result is that there are many more opportunities for *identifying meaningful medical innovation within companies that did not even exist 15 years ago.* Wirk believes we are in the midst of an innovation cycle that will last on the order of decades.

The Opalesque 2017 Miami Roundtable took place at the office of the Downtown Development Agency in Miami with:

1. Al Bhatt, **Director - Investments, Forbes 400 Family Office**
2. Julie Neitzel, **Partner, WE Family Offices**
3. Dr. Shaheen Wirk, **Founder, Palkon Capital Management**
4. Pratik Sharma, **Founder, Atyant Capital**
5. Joaquin Dulitzky, **Director, BiscayneAmericas**
6. Scott Paige, **Portfolio Manager, Apollo Aviation Group**

The group also discussed:

- What is the general thesis for inclusion of hedge funds in a portfolio? What are the responsibilities of the investor when doing so?
- Was the Harvard endowment making more money when investing internally or when using external managers?
- Why, despite the current boom, is original analysis and orthogonal thinking in healthcare actually uncommon?
- Why should investors shift their focus from funds to exposures?
- How are the mistakes hedge fund managers are making with the “Three Cs” (Cost, Capacity, and Concentration) affecting their business?
- Why does a hedge fund manager think that the industry needs to shrink by probably 65% or 70%?
- How can quant overlays help fundamentally based managers?



- At which level of concentration trusts “uber quant” Cliff Asness more a human than a computer?
- Will infrastructure be the next wave of fiscal monetary stimulus? Opportunities in emerging market local currency bonds.

Enjoy!

Matthias Knab  
Knab@Opalesque.com

## Participant Profiles



(LEFT TO RIGHT)

Al Bhatt, Joaquin Dulitzky, Matthias Knab, Julie Neitzel, Dr. Shaheen Wirk, Pratik Sharma, Scott Paige

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# Introduction

**Julie Neitzel**  
WE Family Offices

My name is Julie Neitzel, a partner with WE Family Offices, I have spent the last decades working with wealthy families and entrepreneurs, providing guidance on investing, tax and wealth transfer planning, family governance and philanthropy. WE Family Offices advises 70 families (U.S., and non U.S.) owning approximately \$7 billion of private capital, through the Miami and New York offices, with affiliates in London and Madrid. WE's advisory model is unique, enabling the integration of wealth management activities through a fiduciary framework utilizing UHNW best practices to enable effect strategy and ongoing execution support.

**Dr. Shaheen Wirk**  
Palkon Capital Management

I'm Shaheen Wirk, the Founder and Portfolio Manager of Palkon Capital Management. Palkon Capital is a long/short fundamental equity hedge fund focused on healthcare therapeutics. Specifically, we invest in drugs and devices in the following five subsectors: biotechnology, pharmaceuticals, medical devices, specialty pharmaceuticals and generics. As for my personal background, I am an MD, MBA who started working in the business 15 years ago for Roberto Mignone's Bridger Capital, a New York-based hedge fund. After an 11 year tenure there, I launched Palkon in 2013 with a seed investment from Julian Robertson and Tiger Management.

**Pratik Sharma**  
Atyant Capital

I'm Pratik Sharma, Founder and Managing Director at Atyant Capital. We are a value-oriented investment firm with a focus on the Indian equity markets. We leverage our on the ground presence coupled with a rigorous bottom up research process to identify investment opportunities. We typically take a three to five year investment and look to maximize asymmetry by embracing volatility, taking a longer term time horizon, and capturing illiquidity premia. We have an office here in Miami in the Brickell business district and our research and investment team is based in Chennai, India. We have eight employees including myself across the two offices.

**Al Bhatt**  
Forbes 400 Family Office

My name is Al Bhatt and I lead the team of internal and external resources who are committed to serve as the trusted adviser to the CEO and Chairman of the leading real estate development company in South Florida. As the head of the family office, my responsibility is to develop wealth management solutions that are the best for him and his family. We are long-term investors in nature and objective-focused; however, we also actively seek tactical, dislocation-oriented opportunities across asset classes and geographies.

We operate in a conflict-free environment and are a dynamic, entrepreneurial team. We leverage technology for "operating leverage" and are very research focused in our approach. The portfolios we manage are long term in nature, thus allowing thematic, macro idea generation to drive our bottom up investment sourcing and resulting portfolio construction. My background includes building several successful investment platforms, teams and businesses in wealth management for large, complex families and institutions.

**Scott Paige**  
Apollo Aviation Group

My name is Scott Paige, from Apollo Aviation Group Capital Markets, AAGCM, which is wholly owned by Apollo Aviation Group. My parent is a private equity firm that buys mid-life aircraft, leases, parts them and trades them. This aspect of the business relies on long lock-up capital, and subsequently AAGCM was formed four years ago to establish a stand-alone liquid aviation fund that invests exclusively in liquid securities. The combined companies have 65 staff worldwide based in Miami, Dublin and Singapore.

As our key focal point is aviation, we maintain relationships with all the major airlines, leasing companies and manufacturers in the world. In Japan, which is a growth area for AAGCM, we have partnered with Morgan Stanley Tokyo which distributes a number of products for us. We have a flagship hedge fund and a number of long-only strategies to suit the different needs of our investors.

I was previously with Trilogy Capital in Greenwich, Connecticut, doing aviation and transportation. Prior to that, I ran for 19 years, a global transportation group for an international bank.

**Joaquin Dulitzky**  
BiscayneAmericas

My name is Joaquin Dulitzky, I am an economist from Argentina and work as Director at BiscayneAmericas which is a billion+ institutional wholesale asset management firm here in Miami.

Before these last five years with Biscayne, I traveled the emerging world doing some community work and philanthropy, and prior to that I was 15 years at Merrill Lynch.

The firm has a bit under 25 people, many with over 25 years experience. The CIO since 2010 is Alex Calvo, former PM for the Templeton global bond fund. CEO is Robert Koffler, 34 years experience. We have 4 seasoned PhDs in the advisory council, and they are active with us. Biscayne has three primary business units. One is separately-managed accounts in global fixed income and liquid macro strategies where we run about a billion dollars. We also run a macro-opportunistic hedge fund named BiscayneAmericas Fortaleza Fund. That fund has now a seven-year track record. We also have a private equity technology infrastructure unit where we partnered with Cisco Systems. The firm has a benchmark agnostic investment philosophy and it works as a wholesale house, so clients come primarily from other institutions. Our investor base is 35% US and 45% Latam investors and the rest is global. Clients range from pension funds to high net worth investors, banks, foundations.

# 70

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**Joaquin Dulitzky:** The Fortaleza Fund is a multi-asset liquid fund with about 70 to 100 securities which broadly speaking can have the characteristics of a contrarian, uncorrelated play. We target at about 1% net return per month, so obviously 12% a year, with low volatility. Over the last seven-and-a-half years the fund actually has delivered 11% net average returns with a volatility of 7% and a downside deviation of 3.2%. The fund has earned several awards for this

The strategy is macro, but not in a traditional way. While we are truly investing in all liquid asset classes looking for dislocations and arbitrage opportunities, interestingly, the fund's primary asset class over time has been cash. This means that when we say opportunistic, that doesn't mean that we're going all-out on leverage. It's actually the opposite and don't actually even use leverage overnight. Our strategy is to wait out the type of opportunities we are looking at and then deploy capital tactically. Sometimes it can be for a few hours or for months. We also do have some long-term trends that we seek to capture. And we usually do this long/short, in eight to nine asset classes. The fund is very active, very nimble and pretty risk-averse.

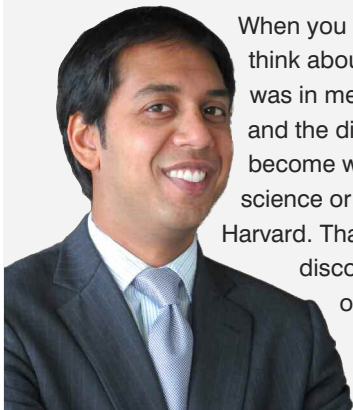
So far in 2016 we are slightly down because like many others we were hedged, looking at the fundamentals and not enough at momentum. We had a very good August and again, we continue to outperform our peers in the medium and long term. Actually, +800 basis points annual average outperformance since inception.



#### Dr. Shaheen Wirk

We are healthcare-focused investors that invest in various areas including biotechnology, pharmaceuticals, and specialty pharmaceuticals. Those three subsectors in particular have faced major challenges this year. We have seen these headwinds as an opportunity to average down the cost of our positions. We are excited about the future prospects of companies in these areas.

**Dr. Shaheen Wirk:** It is no secret that it is an election year and healthcare has been a popular piñata for the candidates. Criticizing drug companies and their pricing strategies make for easy talking points. When you then couple that with some bad actors, the candidates have a good narrative.



When you ask me about our outlook, I am certainly thinking longer than the next six to twelve months. I think about the revolution which is going on in healthcare right now, and about the differences from when I was in medical school compared to the situation that exists today in healthcare. I graduated 13 years ago and the difference in the environment between then and now is that the technology and the science has become widespread and affordable. When I was in medical school, anyone who was doing meaningful science or creating anything that mattered in the medical field worked either at a place like Pfizer or Harvard. That is no longer the case. There has been a vast dissemination of the skills, talent, and tools of discovery while the costs have simultaneously come down. The result is that there are many more opportunities for identifying meaningful medical innovation within companies that did not even exist 15 years ago. The challenge and the opportunity is to identify and invest in some of them.

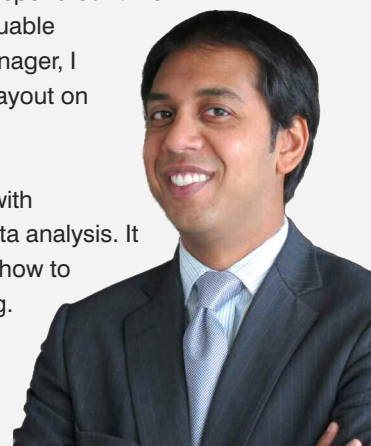
I ask myself “What is the cycle of innovation that we are investing in?” **We believe we are in the midst of an innovation cycle that will last on the order of decades.** Therefore, we are excited about the future of fundamental investing in healthcare and see a continuing stream of opportunities coming.

**Matthias Knab**

I wonder, Shaheen, how do you keep track with all the research and developments? How do you monitor these ascending opportunities?

**Dr. Shaheen Wirk:** That’s a great question. There are certainly more opportunities than one could look at. Our approach is to recognize that there are a finite number of things that a finite number of talented people will be able to skillfully parse, and then be incredibly judicious about where people spend their time. We cannot cover the entire universe, nor do we try, but what we can do is look for opportunities that we think are interesting to allocate our time to. We strive to spend our time in places where we think we can generate alpha and monetize it. I always say that the most valuable resource at my firm is my people’s time. And so, as the portfolio manager and the research manager, I need to be cognizant of what areas my team is focusing on. I need to think about if there is a payout on the backside of their efforts. Because if there is not, we need to move along.

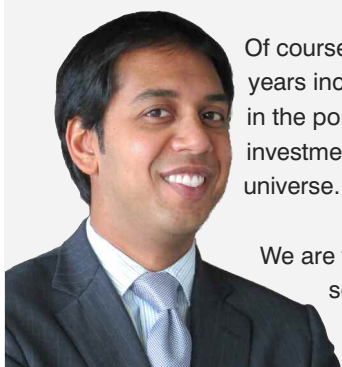
We spend a lot of time reading scientific literature, going to medical meetings, and interacting with physicians and scientists as part of our investment process. There is a science and an art to data analysis. It helps if one has been trained as a research scientist or been taught somewhere along the way how to analyze data. On top of that, you need the capacity for original analysis and orthogonal thinking. This skill set is actually *uncommon*, but it’s important in order to make the opportunities count where one does spend the time.



**Matthias Knab**

When you do an investment, what’s your projected holding period? And are they public securities?

**Dr. Shaheen Wirk:** We focus on publicly-traded equities but do have the capacity to do private investments. In terms of our holding period, years of mentorship from Roberto Mignone and Julian Robertson have shaped my investment philosophy - I have always been taught to consider a two to three year investment horizon. For hedge funds, that’s actually a pretty long investment horizon.



Of course, not every investment is two to three years. I am generally not going to sit in a short for three years incurring the cost of borrow and risking acquisition. Additionally, there are times when something is in the portfolio for a short amount of time. The key is that we are willing to have a longer-term horizon on investments. That longer term focus has been a source of profit for us, and it differentiates our investable universe.

We are trying to provide a unique stream of income for our investors which they cannot obtain from someone else. One of the ways we differentiate that underlying earnings stream is by changing the universe that we invest in. I think a lot of healthcare hedge funds have a short time horizon.

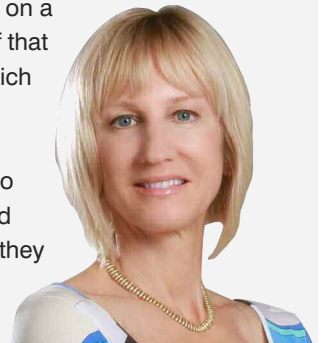


They think about where to make money this week, this month, or this year. This means that these people aren't spending time on ideas which they cannot monetize until next year or the one after that, those opportunities are not even part of their universe. That is one of the ways that we differentiate our investment universe, another thing we have done is to take measures to preserve the firm's ability to invest across the spectrum of market capitalization. If we have a different universe, we should produce a different portfolio, and we should create a different underlying earnings stream. We have done analyses to verify just that.

**Julie Neitzel:** I would be curious to hear the group's view on the hedge fund industry.

As of late there have many of headwinds in the hedge fund industry, and I'm sure we'll discuss this together in more detail. We seem to be in a trading environment where one could do all the fundamental analysis on a business, on a sector, on a strategy, and because of some of the trading characteristics of the current markets, all of that fundamental analysis doesn't necessarily support the investment thesis. Investors need patience, which is difficult when returns are lackluster.

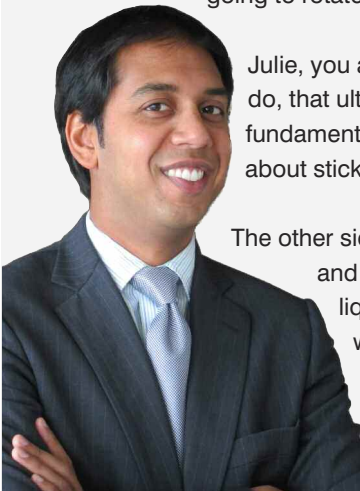
Whether it's the impact of ETFs and other extreme market swings, or the nanosecond trading, how do you manage your portfolios? I would think that many are frustrated where they have a valid thesis and done all the underlying analysis on the investment theme, but then markets unexpectedly move and they cannot capitalize on their position. I've seen this frequently whether it's on the long or the short side.



**Dr. Shaheen Wirk:** It is an important question which leads me back to first principles, like *what is the value of an asset?* The value of an asset is the sum of its discounted future cash flows. There can be dislocations in price over time due to some of the things you mentioned like ETFs, sector allocations, and the rise of the machines. Capital outflows have been an issue in the healthcare sector. We have seen a lot of generalists who invested in healthcare for the past few years decide they are going to rotate into other sectors.

Julie, you are right, the fundamental investor can go through challenging periods. But if you believe, as we do, that ultimately, a security's price will reflect its underlying economic earnings, then valuations driven by fundamentals will triumph. As a fundamental investor, we are aware of what we do and are disciplined about sticking to our knitting when dislocations happen which are unrelated to the fundamental theses.

The other side to that is I need my investors to understand these dynamics, and I need them to give me time and liquidity. All I can provide is a sound investment process and discipline, but I need time and liquidity from my investors. Therefore, it falls upon me to be very thoughtful about how and with whom we partner. Our seed investor is Tiger Management led by Julian Robertson who pioneered long/short fundamental equity investing, so he understands this dynamic better than anyone else.



**Scott Paige:** I share your view. Some investors tend to look for immediate returns, but we've got to take a longer view. Cycles sometimes take a long while to play out.

This environment in general, the low rate environment, the scramble for yield has created a lot of unnatural actions in the market. With hedge funds and other mediums taking a beating, there is really a scramble to try to make up lost time and you can see that many are doubling down. That will just exacerbate the situation that they are currently experiencing.

My industry in particular travels in five to seven year cycles and we try to observe those cycles and are constantly trying to divine where we are within the particular cycle, within the broader market. The markets are also dealing with some outside intervention. I have mentioned firstly the rates, but we have also seen an oil correction, those external factors really moved the markets. Going back to Matthias' question about making money with your shorts, and what do you see to short? When all the boats are rising, it's not necessarily a good time to short. But some of the shorts will end up being much better shorts if they keep running like they are. There are some obvious names, and there are some obvious events that will happen. It is just a matter of time and sequence.

On the short side, you need to be patient. Frankly, we would like to be running a larger short book. I believe it is worth waiting some time to see further destabilization developing in the market and look for some dislocation, and then run the shorts down. But as we get through this election year, and through some Fed increases, I do see some more market disruption. I think a correction is long overdue.

We have observed a large commodity correction out of China and EM and Brazil reacted, and then the Brexit is starting to play out. I think we can anticipate some challenged markets ahead.



**Joaquin Dulitzky:** We are a top-down, fundamental macro house for almost 20 years, and like many others because all the interventions and manipulations happening in the market place we found that having an exclusive focus on fundamentals can hurt your outflows when you don't have a patient clientele. So what we or our CIO did is to develop quant tools, working with the Markov regime switching model, and developing some proprietary tools to basically get indications where we should be positioned, using fresh macro and market data. We will not morph into short-term traders but adding this other dimension and not being exclusively fundamental has helped us.

We do understand that there may be a certain downside to this approach compared to a pure buy and hold approach like Warren Buffet's. Also, some investors that are more tax-sensitive may be sensitive to this more active approach where we try to switch, harvest our losses quicker and in general are more active in turning out book. But in essence we see ourselves as an absolute return house, and so we felt we had to do that. We see it as a compromise to keep the clients happy and not too anxious while still compounding on the rates we want.



**Pratik Sharma:** Julie, you brought up the point about head winds in hedge funds. I have a question for you and AI. Both of you are representing families or larger institutions who at least, on the surface, profess to have a longer time horizon. It's surely one of the biggest advantages of having this pool of capital without a specific quarterly or half-year targets. But I was wondering, when you're looking at hedge funds yourself or even alternative assets or alternative investments, **to what extent is volatility a calculation or a consideration within your own allocation strategy?**

I really wonder, and this is not about blaming the allocators or the investors, but on the one hand, institutions – whether pension funds, university endowments, family offices, etc. – should be long-term pools of capital. Yet there has been an emphasis on managing volatility. And I think that's counter to the idea or the value proposition of what a hedge fund is in the first place.

In this context, we need to understand that the market – the hedge fund industry – will react to what the clients want. *But in this case, when clients are potentially focused on the wrong factor, I think it's only natural that hedge funds, in reacting and managing for lower volatility, would necessarily expect to earn far lower returns.* Hedge funds are actually hedged right now – and let me make clear that



I'm talking purely from an equity perspective – but unless you were 100% long, the entire time from January 1, 2009 until now, at least in most markets, you'd be underperforming. From our perspective, we have been very long during that period. We run a very, very concentrated portfolio with just 10 or 12 positions max, and we've handily outperformed the index over the last five years.

Therefore, we wouldn't really consider ourselves a hedge fund. Technically, we are very much long-only country-specific. Among India's roughly 6,000 stocks, we own 10 to 12.

So, again, I understand that investors want low volatility and they want hedged strategies, but now that you've got them for the past several years, the result has been underperformance. I mean, from a manager's perspective, most must be scratching their heads and asking, "How do you win?"

**Julie Neitzel:** And hence, the conundrum, right? Many times the general thesis for inclusion of hedge funds in a portfolio is to buffer volatility and/or enhance returns. I'm making generalizations not specific to anyone's fund here, but there has been a very high correlation from a volatility perspective of hedge funds to the broader financial market. So investors have been frustrated in that the volatility buffer was not there. Also, as a portfolio component, it hasn't been a return enhancer.



Certainly, there are exceptions with certain fund managers who do add value. The third frustration from an investor standpoint is paying two to three times more in annual investment fees to include this expertise, and not receiving the portfolio value.

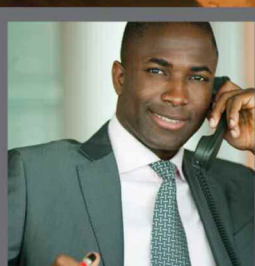
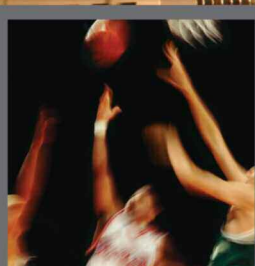
So, is it the investor's fault for these results or is it the market environment? That is why what I've put out my former questions if there are structural things in the market today that frankly make it very difficult – whether you're long-only manager or a hedge fund manager – to add the alpha that you're trying to add and deliver to your investors? That's the question, really, from an investor perspective.

**Al Bhatt:** The first point would be that the investor should go in with a set of expectations. Second, the investor must complete rigorous due diligence and be fully accountable for his decision. The investor is the one that is making the investment. The manager and the bus-dev folks are gathering the assets. Their business model is designed to gather probably more assets than less. Whether it's management fee or performance fee, there are very few managers that know when to close. We could look at a private equity fund with a hard cap at two billion, and they raise four because they could, and hedge funds in general have been very averse to closing when they should. Not everyone, but regrettably, we know what the business model is in this industry.

So as I approach it – whether it's doing what I'm doing now or when I've built two successful hedge fund of fund businesses in the past - so I understand the role of hedge funds and portfolio of hedge funds, is that it is incumbent upon the investor to decide, given the opportunity set, given the vehicles they may use and the fees, the lock ups, et cetera, "How much of my capital do I want in these strategies and what is the role more broadly of hedge funds within my asset allocation?" At the end of the day, it the investor or the capital allocator has to be accountable.







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**Pratik Sharma:** We spoke briefly about headwinds in the industry and some of the requirements of allocators that have driven recent underperformance, but there are some other factors. Managers are not without blame by any stretch of the imagination. Some of the decisions made by this industry have done us all a big disservice, but ultimately also our investors.



I think there are three areas where managers have really made mistakes. I call them the three Cs.

**The three Cs are cost, capacity, and concentration.** Back to Al's point earlier, nobody wants to run a smaller company. You have to actually say, "You know what? I cannot generate outperformance above a certain level of assets." But very few people are able to make that decision or do it consciously.

**Dr. Shaheen Wirk**

We have built a limitation on fund assets into our legal documents, capping the fund size for the very reason Al was talking about.

**Matthias Knab**

From the beginning?

**Dr. Shaheen Wirk**

Yes, from the beginning, on day one.

**Pratik Sharma:** Even for us, we have more demand than we can deal with. We are not accepting any further investments and have a waiting list right now. But there's a reason you put a capacity constraint around your strategy. I know that above a certain level of assets, it will be difficult for us to generate the type of outperformance that both our clients and we expect. I'm much happier running a smaller firm for the next two, three, four years generating consistent outperformance. Because should we decide to do something else like opening a new strategy, I think we'll retain a loyal base of investors who have confidence in us, who have experienced the benefits of disciplined approach towards capacity.

The second area, in my view, is concentration. This point is linked to the proliferation of quant and smart beta strategies. I think it is very challenging, especially when you have a fundamental bias, to generate outperformance when one has a large number of positions. This is the question of how much does one or two great investment ideas move the needle when these ideas are part of a 50 or 60 position book?

I was watching a video of a panel discussion with Cliff Asness and Steve Cohen at the Milken conference this year. I found it interesting that *Cliff Asness, who can be characterized as the "uber quant", himself said that at a certain level of concentration, he'd trust a human more than he'd trust a computer.* So I think managers have not dealt with capacity properly and they have not dealt with concentration properly.

The final area is cost. We're really getting into a big trend of everybody now questioning, "Is this really worth it? Is the juice worth the squeeze?" The dialogue is really going into active versus passive management when you look at the performance of index funds, ETFs and smart beta strategies. In my view, the managers that will succeed are those who really address the three Cs of capacity, concentration and cost.

One thing we've done, and it wasn't altruistic on our part because actually our investors kind of demanded this, is charging a management fee, but there is an index hurdle and we get paid for



outperformance relative to the index. Initially, as a manager you take a step back and tend to say, “Hey, everybody gets two and twenty. That’s not right. You’re trying to nickel-and-dime me!” But after you get over that initial shock, you see that the elegance of that fee structure is in its simplicity. If you’re going to hire an active manager, you hire an active manager to outperform. If he outperforms, we will pay him on the upside and on the downside. So if the index is down 20 percent and he’s down three percent, we’ll pay him on seventeen percentage points of outperformance. After all, that’s why you want to have an active manager in the first place. So I think managers who address these three aspects of management will do better than others who don’t.

**Joaquin Dulitzky**

So you have a management fee and then the performance fee is measured quarterly or annually, above or under the benchmark?

**Pratik Sharma**

Performance relative to index, correct.

**Dr. Shaheen Wirk**

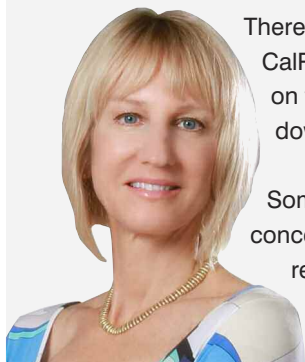
I agree with you about the three Cs, “Cost, Concentration, and Capacity.” On the concentration issue, I agree that if you are not concentrated, you will never move the needle much and are unlikely to generate significant returns. Regarding capacity, too often in our business, asset accumulation occurs for the wrong reasons.

**Pratik Sharma**

Well, I think the best scenarios are when the investors and the managers do well, which is why you have to have an appropriate view of capacity and say, “You know what? I’m stopping here. We’re going to grow organically from here.”

**Julie Neitzel:** That’s the alignment of interest.

But also, Pratik, just a general remark from the investor perspective is that we don’t see an end to the hedge fund industry. It’s still a \$3-trillion industry based on last count. Sure, there have been significant redemptions year to date, but hedge funds remain important investment solutions. We recommend the use of hedge funds in our client portfolio, so I’m not inferring that I don’t believe hedge funds have a role. However, there are many funds that do not add value. The underperformers tend to receive press attention lately.



There are some structural changes happening in the investor base, and we’ve all been reading about them. CalPERS decided to eliminate hedge funds because they felt they weren’t a productive allocation based on the costs involved and portfolio value added. There are other institutional investors that are going down a similar path.

Sometimes, this well publicized movement can affect other allocators or investors views and would concern me if I was a hedge fund manager. I am curious to know, have you encountered feedback regarding with what the Institutional investors are doing with regard to their hedge fund allocations?

**Scott Paige:** I'm not picking on CALPERS here, but they don't have exactly the best track record themselves over the past 10 years. If I were a Californian pensioner, I'd want to have some answers. CALPERS just conducted a study and it seems they don't even know what their private equity fees that they're paying are. I guess the hedge fund fees were a surprise as well. They have just recently revised, I believe for the second time this year, their long term targets lower.

So, again, the environment we're in has deprived everyone of yield and everyone is looking in every corner for what went wrong. Maybe the hedge funds didn't deliver this cycle. I don't know that exactly, but to me it seems that everything universally hasn't delivered. But I do think the hedge fund pricing model does reward outperformance and it denies the manager that income if he underperforms. Will the two and twenty or greater model be up for discussion? It might very well be.

But just looking at whom is in this room, I think the young, nimble, actively-managed, niche, alternative, bespoke, whatever you want to call it, manager, will really deliver when the dust settles. If however you're 22 billion or 165 billion, it's tough to move that battleship around when markets gyrate. Not only does everyone see you coming, but you might be moving markets yourself. And if the opportunities are smaller, you just can't participate. If you can't get a 50 or 100 million allocation to a bond you're not going to play. On the other side, smaller shops like ours can play, and I think we can add value. So I will make the argument for a nimble, active alternative.



**Julie Neitzel**

I would like to add to what you were saying, Scott. The other occurrence, that I have seen out in the market has been this blurring between private equity and hedge funds. So there's private equity firms that have hedge funds (i.e., more liquid strategies) and hedge funds that are investing like private equity firms with less liquid positions.

**Scott Paige:** Of course, I travel in that world. Perhaps that is the reason why my fund exists, because my PE parent did not want to change its strategy or profile. This is what we do and how we create value. If you have a different pool of capital and you need greater liquidity, why don't you look at securities that are matched to your investing profile?"



So there's a clear rationale for our fund, but what you can often see is a certain style drift at some funds from shorter-term assets or more liquid securities that they are investing in to longer-term less liquid assets. That's clearly a drive for yield and these folks may feel they have to go in that direction to get more return because the investors demand that return.

Certainly, Julie, firms like yours are very good at disseminating who does what and how they do it. I think if a fund is style-drifting, that's a bad formula. It means that their original model is not working and they're transforming themselves. Maybe they have to rethink opening up a new fund or announcing to the investors that they are going to change the strategy to seek those yields.

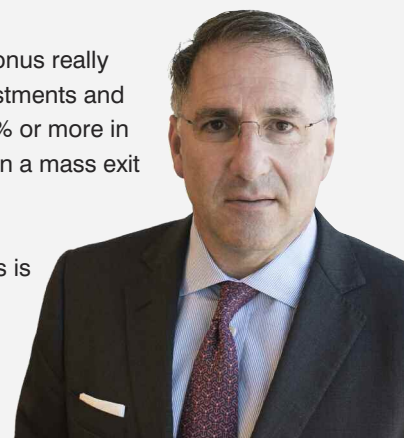
**Julie Neitzel**

This isn't necessarily a new phenomena happening. Back in 2008 during in the global market meltdown, there were a number of hedge funds that raised their gates. They likely knew they had less liquid positions in their portfolios, and some of them are still working through the disposition of those positions. My reason in raising this point is it's not necessarily style drift, but a strategy approach, that includes liquid and less liquid positions.

**Scott Paige:** I think on the liquidity side, a lot has changed. We answer a lot of questions on that. There is also the whole issue of who's marking your book. Are you self-marking your book? Are you allowed a percentage of that? At our firm, we take all third-party marks and we have to demonstrate liquidity.

Having your assets aligned with your liquidity terms is of critical importance. I think that the onus really falls on the investor now to do their due diligence or get a third party to understand the investments and the liquidity profile and make sure it works. There were a lot of funds that had 10%, 20%, 30% or more in less liquid assets before 2008, and they were able to hang on to it because there hadn't been a mass exit for the doors in recent history.

As we know, 2008 changed our industry forever. Post-Madoff, I think the integrity of the funds is probably better as a universe now. Checking on the liquidity of a manager's holdings, verifying the marks and analyzing the funds in general is at a whole new level, but of course in the end you still have to perform your own due diligence.



### Joaquin Dulitzky

I think a lot of us have also made that observation that many of these impatient and upset hedge fund investors increased their PE and real estate allocations and now they are happy with four caps in Manhattan or London that are arguably very long-term overpriced, but that's where a lot of investors now feel comfortable.

**Pratik Sharma:** I was reading an article in Bloomberg just a couple of days ago. Private equity funds seem to be at the complete opposite end of what hedge funds are experiencing in terms of renewing the investor's interest. And I think to your point, Joaquin, I think it's a function of these being by nature longer-term assets. This means you tend to go in without that pile of expectations. You're not really worried about how you performed versus the S&P this quarter, the next quarter, or over the past year.

And Julie, you made a point earlier that the industries are \$3-trillion industry. My point here may be controversial and you might not expect it from somebody who is a manager but **I do think that the industry needs to shrink by probably 65% or 70%.** I think too many people who shouldn't be in hedge funds are in hedge funds; there are a lot of managers out there who are not really differentiating themselves, who don't provide real value.

I think this is a function of the environment that we're in. Just think about what happened after '08 when you saw those prop desks spinning out and saying, "Okay, let's start a hedge fund. My clients have been buying from me for the past 20 years. They'll seed us with \$150 million." Just statistically, it's impossible for that many people to provide outperformance. It is just not possible.

Similarly, some of the largest allocators, such as the near-trillion-dollar pension funds, really shouldn't have a hedge fund portfolio in the first place because they can't achieve scale without an enormous allocation. And some smaller organizations can't achieve significant manager diversification without hiring expensive intermediaries. These organizations are beginning to question their decision to allocate to liquid alternatives managers and some have already pulled their capital back. These decisions will be healthy for the managers who can survive this period. The hedge funds industry definitely needs to go through a right-sizing. And I think the direction of that is downwards, and not a little bit down, but rather a lot down.





**Pratik Sharma:** I think the answer to that question is not what type of organization, but what type of mindset does this investor take when they enter into that strategy?

We touched on this before, and I do believe that this emphasis on volatility needs to go away, especially if you are an institutional investor. Maybe "Go away" isn't the right way of expressing it, but I feel like it's a self-goal, so we could also ask, "Are you shooting yourself in the foot?" If you have this large pool of semi-permanent or permanent assets, well then, volatility is your friend. And to look to actively manage that and pay somebody two and twenty in a relatively illiquid structure, I think, is counter-productive.

I think the other aspect is looking for areas where people can truly, truly outperform. Whether it's a niche strategy, whether it's deep subject matter expertise, I think you have to look for areas where people truly have the ability to outperform.

And this goes back to my point about concentration earlier. If you're running a 100-position long book and a 30-position short book in US equities, when you're running that level of diversity, how are you going to outperform when S&P is going up 6% or more a year? That seems to be especially true in the market we're surviving, which is the most hated roaring bull market in the experience of most living traders, as it combines an ever-upward bull run with a historically low dispersion in stock returns. Then consider the other changes in the market, from advances in technology that automate the execution of fundamental and technical strategies, to lower cost structures that allow smart beta strategies, index funds and liquid alternatives to compete for less. Investors who want outperformance need to look very closely at whether the manager has considered their own unique value proposition in this environment or whether they are running a 1990s style strategy and pretending that cheaper or better alternatives aren't now readily available down the street.



**Dr. Shaheen Wirk**

Following up on what Pratik said about volatility and your previous statements that hedge funds deliver value if they can generate additional performance or if they can reduce volatility, I have a question for the investors. **Howard Marks** talks about the idea that volatility is not risk. I am just wondering if the investors here agree with that or not?



**Julie Neitzel:** The context of a volatility buffer is to support steady compounding of a portfolio, ideally without extreme swings upward or downward. The mindset of a typical individual investor is, "If everything is going down at the same time, it really doesn't feel right and the asset allocation tends to be questioned." Individuals have more emotion involved in their investing activities than institutional investors. They intellectually understand why private equity, hedge funds, and the other strategies create a diversified portfolio. But when they experience negative correlation across all asset classes (i.e., delivering negative returns), private investors question the benefit of including alternative strategies.

**Julie Neitzel**

Right. That was the point I mentioned earlier. Unfortunately, in recent times there has been a high correlation between many of the hedge funds and the overall public markets.

**Dr. Shaheen Wirk**

Do you mean correlations between fund returns or correlations between hedge funds, real estate, private equity, etc.? Across asset classes or within?

**Julie Neitzel:** Hedge funds in conjunction with public equities to the broader market.

So, I agree with you, Shaheen, and Pratik, that volatility can be your friend as an investor. If you are truly a long-term investor, you benefit from volatility over time. Sometimes individuals and families also have other goals and objectives for their portfolios. At times these assets serve as collateral for lines of credit to fund operating business requirements, and then if extreme volatility results in margin calls, this is not a very comfortable place to be for their financial assets and operating businesses. During 2008, many collateralized portfolios experienced hedge funds gating with little or no access the fund liquidity. Those investors suffered from two serious consequences. One, they had margin calls requiring in opportune asset sales, and two, they couldn't access their liquidity to fund needs in their operating businesses.



**Dr. Shaheen Wirk**

Right, what Howard Marks actually argues is that volatility is not risk, so long as you can tolerate it.

**Julie Neitzel**

Correct.

**Dr. Shaheen Wirk**

So, in your example, the investors who have margin calls, cannot tolerate the volatility, and so for them - it is risk.

**Julie Neitzel**

Correct.

**Scott Paige:** In 2008 we saw redemptions, of course, across the board. But the funds that did not gate and who were up, they were the ATM. They were redeemed because they had the cash and they were doing the right thing. We had experienced that ourselves in 2008 when we lost about 25% of our assets at my previous firm. But we didn't gate, and a lot of it came back very rapidly. We were able to sell securities and provide liquidity to our investors because they were trapped elsewhere.



If we take a look at the Harvard endowment, they initially had tremendous outperformance. At some point Harvard decided to spin out five managers and they continued to work with those outside managers, and they continued that performance. Later Harvard made the decision to bring back in-house the expertise, but that didn't work out well. They hired their own team and they tried to replicate the outside performance and then were not able to. So now they are dismantling that structure and going back to outside managers.

I'm using Harvard as a case in point because they were the gold-plate standard for an endowment and returns and they made the conscious decision to go outside. They believe that it will be worth their expense, once again, despite having to explain to other parts of the university why they're paying these fees for performance.

**Julie Neitzel:** Let's move on to another topic. Matthias, sitting here ten years ago, we would not have the pleasure of having this group around the table.

I've lived here for over 30 years, and I think one of the great things that I have witnessed in Miami and the South Florida market is the growth and expansion of talent. Individuals like yourselves sitting around this table that have created alternative investment firms and strategies.

We continue to see very well-known hedge funds relocating their firms here, such as its Universa from California, David Tepper of Appaloosa Management, and Ed Lampert of ESL Investments. From an investor standpoint, I think it's very exciting that we have the ability to tap into quality professionals like yourselves, your firms, and your strategies. And it seems that there is continued momentum with fund managers opening South Florida offices. I would welcome hearing others perspective on this momentum.



**Dr. Shaheen Wirk:** I moved down here ten years ago. My previous firm opened an office for me here, and I worked remotely. I found real professional benefits to it. For example, we were talking about increased correlations, the crowding of names, and the dampening of returns. I think one of the real costs of being in one of the financial centers is the echo chamber effect. There are a bunch of people running around, bumping into each other, talking and sharing ideas, saying, "Hey, I'm buying this, I'm buying that." It's a simple fact of human psychology that if I say to you, "I'm buying Pfizer," you will have one of two reactions.

If you respect me, you are going to like Pfizer a little bit more than you did before. And if you do not, you are going to like it a little bit less. You cannot divorce yourself from that anchoring effect. It is just one of those little glitches of our human brains. This is something that I find actually very dangerous - that one can get colored and biased by what other people say about a company.

What I used to say before I launched Palkon, was that my boss did not pay me to chit-chat with my colleagues on the sell-side or the buy-side. My boss paid me to do independent, proprietary research. That is what we do at Palkon, and that is what our investors want us to do. I think that is really hard to do if you're constantly getting anchored on ideas by the people in your environment.

Therefore, one of the aspects that is great about being here professionally is that we do not have this echo chamber, and we can do independent work. We can come to conclusions which are "clean," i.e. objective and unbiased. I believe that is a big benefit.



**Scott Paige:** I moved down here about four years ago. Apollo Aviation Group, our parent private equity company, was down here already. I had worked in Connecticut and New York and honestly was quite reluctant to move down here. But I came down, tried it out, and then a number of things really contributed to me deciding to relocate the firm down here.

Number one, I initially thought it would be difficult to bring talent here, but then I was surprised that they came so readily. We have recruited a number of people from the tristate region and brought them to the Brickell area. They went from single-family homes to tall towers, but they now walk to work. In some cases, they have saved two hours a day.

We have been able to offer quality of life. The State, with the lower taxes, has helped us compensate them. I think Miami also has a good culture down here and great food and art. Miami is always exciting and provides a good environment for us.

The real pushback I initially faced was reputational, “How would we sell our products from Miami?” Early on that was a bit of a challenge for us, but when some of the large brand-named funds started moving down here, there was even some talk about turning Brickell into a “hedge row.” I think those developments and that mind change was very helpful for us and it paved a way a bit. We are satisfied and staying, as we thriving and growing.



### Julie Neitzel

AI, I wonder what your experience has been being in Miami. Do you find it beneficial in terms of having many fund managers of all types traveling to Miami to present their thinking and their funds? Given the constant visits from investment managers you likely don't even need to leave your office to learn about new investment offerings.

**AI Bhatt:** In my case, I've gone in cycles as far as completing in the field diligence versus desk research. I moved here in 2004 and I've seen a lot of the growth in the financial services sector. In my first several years here, I would travel two to three times a month because I had to in order to meet with managers and their teams. I would go to New York, London, Chicago, and I would always do West Coast trips. But, Shaheen is perfectly right, when you're at the airport at LaGuardia heading home to Miami and you're leaving, you leave the herd mentality behind.

And yes, Julie, managers are visiting here, albeit it's very seasonal. They tend to be here November to March, no one visits in August, let's be honest, unless there may be a bachelor or bachelorette party on the beach. I have typically had the rule of an open-door as much as possible, because I think it's just good use of time management to take even a brief meeting here in town versus potentially allocating that time during an out of town diligence trip.

Another positive development since 2004 has been the development of a buy-side culture whereas before we probably have been very private-banked if not over-banked, and what I mean by this expression is that we've been more in a sell side environment. I think statistically you can probably show that, and I'm not saying this is a plus or minus. But now I believe that Miami is developing a real buy-side culture.

I don't think any of us believe we're there yet, whether you would look at Chicago or New York, or Greenwich, Connecticut or even let's say Silicon Valley in terms of the true buy-side culture. But certainly today versus at least when I landed, things have become a bit more diverse. I remember in 2004 or 2005 we started a little networking group, because I had to as I was new and had no network. We were fortunate because a few people took that idea to a more formal level, and now you have the Miami Finance Forum that started in a little office in Coral Gables in 2004. That's great to see that flourish because there is demand.



But there are also challenges. For example, the Knight Foundation is managed by folks from out of state. I think all of us can ask ourselves why, and that's probably a good and healthy discussion to have. The University of Miami, which is a leading university here with a great endowment, is also managed by out-of-state entities. I don't want to start a fight but in terms of the spirit of fostering a buy-side culture, I think it's fair to ask all of us, rhetorically at least, “Why is that?” And as we evolve and mature as a buy-side culture, it would be great to have some of these leading local institutions managed on the ground here in Miami.



**Dr. Shaheen Wirk:** Talking about the buy-side culture, of course, Miami is not going to be the next New York, but maybe it could be the next Dallas. Miami is on a great path.

One benefit that comes from operating here is that there are only a few hedge funds pursuing a fundamental long/short equity strategy, and those that are here try to help each other out. One of the things this community does well is that when an investor comes to visit one of us, we offer to introduce them to the other funds here. We will mention their strategy, highlight the manager's background, and encourage the investor to meet with them as well. This cooperation really has its benefits because it often results in quality meetings.



**Julie Neitzel**

Joaquin, I have seen the evolution of your firm in terms of the momentum in this market, and have known your principals for many years. Your firm was historically known as an emerging market bond management firm. Listening to where your firm is today in terms of the talent, the intellectual capabilities, as well as some of the different strategies offered, the firm has evolved into a more diversified investment firm with multiple strategy offerings.

**Joaquin Dulitzky:** Thank you for those comments, Julie, and also for your previous comment on the talent coming to Miami.

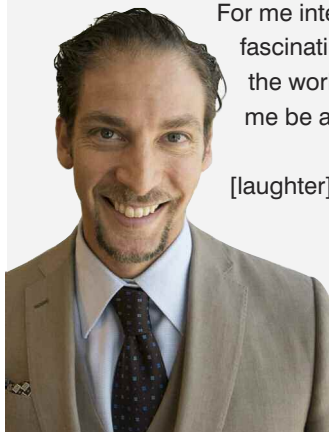
You are right, BiscayneAmericas started in the '90s as an emerging market bond shop managing money for Merrill and other large institutions. We started branching out partly because of the compression of spreads on which you get paid on SMAs, so over the last five years we firm started growing the hedge fund that we run and private equities through our partnership with Cisco Systems.

We also developed a new offering following our clients' demand to engineer financial solutions to solve some problems, so we sat down, rolled up our sleeves and said, "We can do this. Let's reinvent ourselves, and not only in SMAs and emerging market bonds." This is also how we ended up building a quant side to enhance our returns.

For me intellectually, I want to die learning and learn every day, I feel I picked the right place, it has been fascinating. When I was doing volunteer work in Mozambique before I came here, my wife and I looked at the world and picked Miami as a fantastic destination. Well, she picked Miami, to tell the truth, but she let me be at the table when it was decided.

[laughter]

But back to Shaheen's point, what's the next frontier? Miami is obviously going places. When I first visited it, talked to a lot of people and I saw that it was getting better. I've been here for five years, and it keeps getting better, also things Scott mentioned like arts, culture, intellectual talent coming, etc.



**Pratik Sharma:** Everyone here, professionals, business owners and residents all have an interest in the success of this city, and that means all of us also have to face the challenges we're having. My office is on the other side of the Brickell Avenue drawbridge, and maybe I am a little jaded because my 1.2 mile commute took 35 minutes today. Miami is booming, and that's great, we all want that, but I am also wondering if along with the 7,000 or 10,000 condo units we are building right now, the required new infrastructure is getting developed to help support all these additional people.

What do you see as the biggest risks to Miami in realizing this vision we talked about?



**Al Bhatt:** Those are important points because a buy-side culture and a financial services culture ideally also fosters longevity via families that live here and contribute to the vibrancy of the city.



Whether it's education, public versus private school; traffic and infrastructure; these are all great points of dialogue which I would encourage all of us and our colleagues – as we foster the growth of financial services and wealth management and having people potentially relocate here – to have, so that those relocations are in fact permanent. Ultimately, a strong, financial services community will be a function of attracting and retaining world class participants who stay in Miami for the long run.

**Dr. Shaheen Wirk**

That's a good point, Al. Regarding the success of Miami, the real key is that people just need to see it happen with their own eyes. The next guy who wants to start an emerging markets fund should be able to look to people like Pratik and say, "Hey, he did it, so can I." Success engenders success.

**Joaquin Dulitzky:** Well, I want to use this as a segway. We at BiscayneAmericas and I personally believe that infrastructure, hopefully in the US, but also around the world, is probably the next wave of fiscal monetary stimulus. Infrastructure could be the push that will hopefully get the global GDP rolling again. We are beginning to increase our long allocations to some of those infrastructure plays. Evidently, depending on the country there's not a lot to do on the fiscal side. And monetarily, we've all seen what happened there. Japan for example is disappointing the world surprisingly quarter after quarter. So, hopefully, infrastructure in the US and globally will replace the other stimuli.

We talked about Denver, and I used to live there. The old Denver Airport, which was a very noisy, when in the 1980 or so they built this international airport in the middle of nowhere, it ended up making Denver become a very important place. This was one of the last major infrastructure investments the US had some 30 years ago. So even the US, the world leader, has a lot of things to do. So with all the money Miami is making now with the boom, we would hope that we do something about improving.



**Matthias Knab**

Pratik, you we had the discussion about the investor perception about volatility. I think there is a fundamental discussion to be had, and maybe also leave the generic term “hedge fund” behind us and become much more granular when talking about such strategies. But we are not there yet, and now and in the past, hedge fund investors are probably expecting a hedge fund to actually hedge. At the same time, hedge funds have been marketed using the catchy concept of capital preservation. I wanted to ask you how do you see those two things – the demand to embrace volatility while claiming to preserve capital – match, or what's the right mindset or the right approach?

**Julie Neitzel**

Or what is the role in your estimation of hedge funds in an overall portfolio context for an investor? What should an investor expect from including these strategies?

**Pratik Sharma:** I agree that the concept “hedge fund” is very broad, no? I remember back in 2006 and 2007 there were hedge funds that were collecting rare wine. I mean that's a hedge fund too, right? So, by all means, a “hedge fund” is a compensation structure and not an investment strategy.



To make a broad generalization, I think it's really incumbent upon both the allocator as well as the manager to make sure that there's a proper fit in place where you have the right alignment of interests, including an understanding of characteristics such as volatility and capital preservation, and where the manager is truly adding value, whether through a focus on a certain market or a certain supreme depth of intelligence or expertise in a specific area.

But let me also be clear that hedge funds were never meant to be 60% of your asset base. As I understand it, the typical investor is meant to have the majority of his assets in bonds and equities, and then sprinkle in some hedge funds to add some spice or diversification to a portfolio. And I think that can still be the case. This kind of argues back to my assertion earlier that the industry needs to shrink. At least half of the managers need to go away. The challenge is: what are we going to do with all these people?

**Matthias Knab**

Infrastructure.

[laughter]

**Pratik Sharma:** There you go. So the thing is, I don't think there is actually anything that needs to be done. I believe just through attrition and proper due diligence markets may shrink.

Markets generally work, right? That's why they are the dominant force globally right now. If as an allocator you're not embracing volatility, then you will be doing yourself a disservice. And as a manager, I'm sure there is somebody who will want to buy that. But if you're trying to be all things to all people, you'll wind up disappointing everyone including yourself.

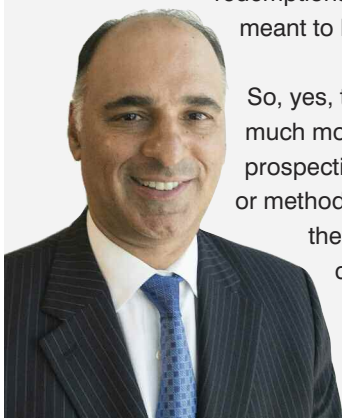


**Al Bhatt:** I couldn't agree more. We don't even think of hedge funds as an asset allocation or a line item on your monthly statement, even though we might get it in a report that way.

Let me go back to an experience I had in 2001-2004 when we built a hedge fund of fund business at a large long-only asset manager. The first nine months of that effort was to work within the asset allocation team, which at that time had a zero allocation to alternatives. So we spent nine months working within asset allocation, and I learned probably more in those nine months than a good balance of my career because what we came out with was that hedge funds and private equity aren't separate line items, they're not separate components. They're just exposures to equity and fixed-income, and hopefully, there are some non-correlated return streams that really could be stand-alone investments.

Maybe Pratik is right and the industry does need to rationalize. The barriers to entry are still too low: You need a seed investor and a good law firm, and with your PPM you're in business. But again, going back to where the investor is accountable: The family office, the institutional investor, the consultant, the pension manager, has to do the homework and understand, "What is that role ex ante, and why am I committing to an illiquid structure?" I also go back to the managers who also own some accountability in terms of screening. Are they actually willing to take the time with the perspective investor client to really educate them? It would make sense, because at the end of the day, when you have a down quarter or a down year, you want those people to stick with you versus being the liquidity provider or their ATM.

In my view, there is a role for hedge funds, but more importantly, it's about exposures. And are those exposures consistent with that prospective investor in terms of what they think they are? Of course, a manager has no control about what an investor's investment committee does, but I haven't heard enough from other colleagues about managers who actually say, "There may not be a fit." I hear a lot from the allocators who say, "That manager is a no." Given the massive amount of redemptions, using hindsight, I would think that a lot of the marriages, if you will, weren't fits and likely not meant to be.



So, yes, to consolidation, but I also hope the next phase in the evolution of the hedge fund industry has much more intensive due diligence which includes hedge fund managers doing due diligence on the prospective investors and have the ability to say, for example: "We may not be a fit because our exposures or methodology. We have three year-themes, because I'm going to capitalize on a 30- or 50-year cycle, and there's these three-year patterns." If the investor is benchmarking every 12 months, it can be challenging. So the way we view and have been using alternative strategies and the resulting risk exposures is finding out how they fit into our portfolios and understand the terms and conditions versus, "Here's the line item, and I have to 'fill that bucket.'"

**Matthias Knab**

Before we end, does anyone want to comment on opportunities you are seeing in your sector?

**Joaquin Dulitzky**

I can add a brief comment on just a couple of opportunities we see. We believe that the Fed's upcoming shaky year-end rates rising environment will create nice opportunities in some emerging market local currencies where some pretty high-quality bonds are already starting to pay between 14% and 18%. That will also actually present some short opportunities with mispriced bonds. Fundamentally, looking beyond 2016, as a firm BiscayneAmericas is pretty bullish in general on global equities, select commodities and some liquid real estate markets.

**Scott Paige**

We see volatility and risk being mispriced. I think that really creates the opportunity. In my view, there's a false sense of complacency here that rates are low because risk is low. I do not believe that is the case. We're also heading into a political dogfight here in the US. And if you look at the



global economy, I think there are very few pockets that are immune from what is about to transpire. We see this as a real opportunity, but you'd better be on your toes to navigate through this environment, but generally I also think there are rich feeding grounds ahead.

**Julie Neitzel:** The tepid global growth and low interest rate environment has translated to continuing lower public market investment returns.

We believe the opportunity for investors to grow their capital long-term is in fact in the alternative space, mispriced asset opportunities through private equity and less liquid private investments. Those opportunities could be accessed through other vehicles including hedge funds and private equity, which are limited partnership structures with limited liquidity. Giving up the liquidity in exchange for return in the future is a trade-off worth considering given the forward expectations of muted public market returns.



# accurate

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