



Opalesque Roundtable Series '17

GENEVA

Opalesque Roundtable Series Sponsor:



Editor's Note

Given the less attractive outlook on most traditional “pure beta” asset classes and investment styles, **hedge funds and alternative investments are regaining interest from Swiss investors**: pensions, banks, independent asset managers and private clients. Risk premia become increasingly tight, and with that the risk of a correction increases. The need for diversification is high.

Swiss pension plans have on average 5% invested in alternatives, well below the regulatory soft limit of 15%. 1% is in private equity, about 2% is in hedge funds, and the remaining is deployed in other asset classes categorized as alternatives according to the Swiss pension plan regulation such as commodities, insurance-linked securities, senior secured loans and private debt. The allocation to alternatives of semi-institutional investors such as family offices is more sizable and consists on average of 20% private equity and 8% hedge funds.

High performance hedge funds, structural changes and questions around PE

In this Geneva Roundtable, we introduce you to a selection of interesting managers. For example, Hilmi Ünver represents one of the oldest funds of hedge funds called Haussmann. Launched in January 1974, the fund has been around for 43 years now with a net compounding performance of 13.8% since inception. Commodity newcomer Zafiro Capital, founded by veteran manager Stephen Smethurst, is up over 71% gross in 2016, and Dr. Karl Sarkans' Geneva Global Macro Fund is up 90% net in 2016 after having made 30% in 2015 and 75% in 2014.

The Roundtable also addresses structural changes within hedge funds. While total industry AUM still seems to go up, we also see hedge fund managers closing, which means in some cases less competition, leading to greater dispersion and better opportunities for certain type of managers. Meanwhile, investors and consultants say that **it's actually private equity which is a big question mark** (page 8), because valuations are probably even richer than in listed equities with so much money chasing limited opportunities.

Finding the right balance between passive and active investing

Investors shouldn't underestimate some of the unintended consequences of the unabated money flows into passive investments. Of course, there is a cyclical aspect to that as well in the sense that you need to be massively investing into passive investment when markets are efficient and it's a cheap way to get beta. However, the more you invest into passive investments, the more distorted the market becomes until at one point large inefficiencies can be exploited by active managers (page 15). Hedge funds are the most active investors because they can go long and short, and they should be the ones who can benefit the most from large dislocations and inefficiencies.

The Opalesque Geneva Roundtable, sponsored by Eurex, included the following experts:

1. Dominique Grandchamp, [Head Investment Consulting Switzerland, AON](#)
2. Hilmi Ünver, [Head of ultra-high-net-worth and family office, Notz Stucki](#)
3. Clément Leturgie, [Business development & investor relations, Lombard Odier Asset Management](#)
4. Dr. Karl Sarkans, [Portfolio Manager & Director, Geneva Capital](#)
5. Vincenzo Zinnà, [Equity and Index Sales, Eurex](#)
6. Stephen Smethurst, [CEO, Zafiro Capital](#)
7. Sherban Tautu, [Head of Investment Advisory, Banque SYZ](#)

The group also discussed:

- Example of an alternative risk premia mix that is working quite well and can deliver attractive returns over the medium term (page 9) (page 10)
- Which are the four main ways to improve bond yield?
- What does a balanced account of a typical Swiss ultra high net worth client look like? (page 11)
- Manager selection: How do Swiss allocators select funds? (page 13, 23) In demand: Cross assets specialists and managers with a clear technological edge (page 16)
- Do second or third generation managers spinning out of some well-known established hedge funds mostly succeed or mostly fail? (page 13)
- What is the potential problem with robo-advisers? (page 13-14) Are robo-advisers “smart”? Will disaster strike? (page 20)
- Do quants distort fundamentals? (page 15)
- How is an asset-liability study performed? (page 17)

- Outlook for oil, Palladium and precious metals (page 21)
- What is Eurex' ISA Direct offering? How can volatility futures hedge portfolios? (page 23)
- Are equity valuations justified? (page 24)
- How can fees be more aligned between managers and investors? (pages 24-26)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT):

Dominique Grandchamp, Sherban Tautu, Hilmi Ünver, Clément Leturgie, Dr. Karl Sarkans, Vincenzo Zinna, Stephen Smethurst, Matthias Knab

Introduction

Vincenzo Zinnà
Eurex

My name is Vincenzo Zinnà named Enzo, I work for Eurex in the sales team responsible for the Italian clients (Buy- and Sell-side) and the Swiss buy-side clients. I am working in the derivative market for 30 years now, I was a Eurex market maker and also worked in sales for structured products, so I am quite familiar with all types of derivatives.

Dominique Grandchamp
Aon

My name is Dominique Grandchamp. I am the head of investment consulting and advisory for Aon in Switzerland. We are a global consultancy group servicing institutional investors such as large pensions, insurance companies, sovereign wealth funds, single family offices, endowments, and banks in the field of strategic asset allocation, tactical asset allocation, portfolio management, manager selection, and investment controlling.

Before joining Aon, I worked for Mercer where I was responsible for providing advisory services to institutional clients. Prior to that I worked eight years as portfolio manager and research analyst in asset management firms focusing on alternatives such as hedge funds and private debt.

Stephen Smethurst
Zafiro Capital

My name is Stephen Smethurst, I'm the CEO/Investment Manager for Zafiro Capital Sarl here in Geneva, which acts as the investment arm for the Cayman-based fund Zafiro Capital Commodities Trading fund.

Before Zafiro I held senior positions across a variety of different institutions, including investment banks, a Japanese trading house, and as Managing Director / Energy Portfolio Manager at Black River Asset Management, an \$11 billion US hedge fund.

However I wanted the challenge of running my own fund. We are still in the emerging stages. Zafiro is still pretty new, as we have just passed the two year mark. Our current AUM is \$2 million, but we are outperforming many other hedge funds. We are looking to be **up over 50% net in 2016**, and so we are looking to raise capital.

Hilmi Ünver
Notz Stucki

My name is Hilmi Ünver from Notz Stucki, a firm that was founded in 1964 by the two founding partners, Beat Notz and Christian Stucki. We are an independent asset management company and have been a pioneer in investing in hedge funds.

We actually co-manage **one of the oldest fund of hedge funds** called Haussmann with Bank Mirabaud and Banca Ceresio. That fund was created in January 1974, so it has over 40 years of existence with a net compounding performance of 13.8% since inception. Notz Stucki manages today roughly 8 billion Swiss Franc.

At Notz Stucki I am Head of ultra-high-net-worth and family office. In that position I am looking for investment solutions for clients, not only through hedge funds, but also a broader range of alternative investments to enhance alpha and not so much depending on beta. One of the things we are looking to do is to diversify our range of product by including strategies like private equity and debt financing among other things.

Sherban Tautu
Banque SYZ

Sherban Tautu: My name is Sherban Tautu. I work at Banque SYZ where I am in charge of the alternative investments – hedge funds and private equity – for the wealth management division, and also in charge of the ultra-high-net-worth segment.

Within the SYZ Group, both the wealth management as well as the asset management arm, through funds of funds and mandates, invest in alternative investments.

I started my career as an auditor and then became a financial controller for a big multinational. Later I moved on to become a stock picker for a very large family in Monaco for three years. Then for seven years I was the head of investments for a multifamily office here in Geneva.

Clément Leturgie
1798

My name is Clément Leturgie. I am in charge of business development and investor relations for 1798 in Europe. 1798 is the brand for Lombard Odier's Investment Managers internal hedge funds.

We have launched our first single hedge fund in 2007 and have since built a very robust and dedicated infrastructure that offers security and transparency for our clients as well as top notch support to the talented hedge fund managers who join 1798. We are very active in developing our offering which grew from 1.5bn to 3bn recently and covers all main strategies: equity long/short, global macro, event-driven, and relative value

Dr. Karl Sarkans
Geneva Global Macro

My name is Karl Sarkans. I am Portfolio Manager and Director with Geneva Global Macro. We specialize in global macro with a focus to make the highest return possible for our clients.

For 2016 we made a return of 90%, in 2015 +30% and in 2014 +75%. We are looking to control risk and still come out as one of the top quartile asset management firms, in any year. Our competitors are mostly large banks and their wealth management units, which is where most private investors put their money. We want that investors allocate a small piece of their diversified portfolio and we should be one of their best performing, high return holdings. Of all the thousands of alternative investment funds listed on the Swiss platform Fundbase, we are ranked number three in the world this year.

I have a PhD in macroeconomics and an MBA from Wharton Business School. I have 23 years experience as a fund manager, am an engineer, a CFA, and the last designation I could find that I still needed was CMT, the Chartered Market Technician. I have Level 2 finished and one more year to go.

5

planets are visible to the naked eye:
Mercury, Venus, Mars, Jupiter, and Saturn.



Eurex Exchange turns figures into opportunities. We offer the broadest range of MSCI derivatives, with 72 futures and 15 options to give you 5 continent coverage.

And because each trade is centrally cleared, you maximize capital and cost efficiencies.

It's how Eurex Exchange helps investors get more from the market.
www.eurexchange.com/msci

**Eurex Exchange – enjoy the broadest choice
of equity index derivatives worldwide.**



The information published in this publication is for general information purposes only. It is not intended to constitute investment advice nor is it intended for solicitation purposes. Eurex is not responsible for any errors or omissions contained in this publication. Before trading, persons should consider the risks involved and the legal requirements of the relevant jurisdiction.

Investors globally are challenged to find returns and diversification. Dominique, how have Swiss investors fared lately, and what has been their investment approach in this environment?

Dominique Grandchamp: At the strategic asset allocation level taking a multi-asset class view, most investment grade bonds exhibit an unfavorable expected yield with significant interest rate risk so we started to increasingly allocate to bond substitutes in the traditional and alternative space to include high yield, senior secured loans, emerging market bonds, insurance-linked securities, private debt, real estate and hedge funds.

As I mentioned, bond yields are low or even negative, especially after taking into account currency hedging costs for a Swiss franc investor. We also see valuations in equities which can no longer be considered as cheap. Nobody knows how rich they are, but they are definitely not cheap. Therefore, any move into **defensive strategies and asset classes** is very welcome. *While since 2008 hedge funds have been out of favor for large institutions in most European countries, we still include them in every strategic asset allocation discussion.* What we are seeing now is a **regained interest for hedge funds** again given the less attractive outlook on most traditional “pure beta” asset classes and investment styles.

Pension plans in most jurisdictions are categorizing hedge funds and private equity as an alternative investment, and so if the clients have the appetite, we help them to increase their allocation in these buckets. Our estimate is that *only about 5% of the total assets of Swiss pension plans are currently deployed in alternatives while there is a soft limit of 15% in place.* Our pension plan clients which increase their allocation to alternatives typically have assets above CHF 500 million, because only from such size onward it makes sense to go through all the due diligence work to allocate to alternatives. Pensions have committees and trustee boards and you have to convince all layers of the governance that an alternative investment can add value. This is a very lengthy process and only makes sense if the pension plan and target investment size are large.



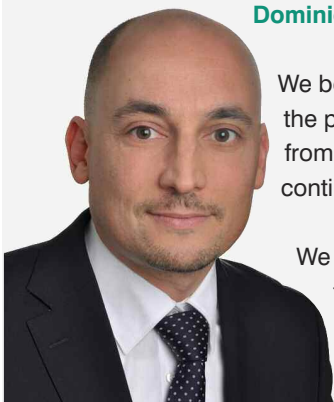
Clément Leturgie

You are saying that hedge funds are out of favor since 2008, however hedge funds have enjoyed a very strong growth in assets since then. What is your take on this ?

Dominique Grandchamp: The investor and asset manager mix has shifted somewhat.

We believe that European institutions have neglected hedge funds since 2008. At a global level however the picture looks more nuanced and we have witnessed large flows in hedge funds stemming mainly from “Anglo-Saxon” pension plans. These investors always have invested a lot in hedge funds and continue to do so.

We also witnessed a strong re-allocation away from mid-sized funds of hedge funds to very large, top tier funds of funds and to investment consultants who can exploit economies of scale and offer hedge fund advisory at very competitive fees.



Dominique Grandchamp: Swiss pension plans have on average 5% invested in alternatives. If you then take a deeper look, 1% is in private equity, and about 2% is in hedge funds, and the remaining 3% is deployed in other asset classes categorized as alternatives according to the Swiss pension plan regulation such as commodities, insurance-linked securities, senior secured loans and private debt. So hedge funds really make a very small part of the total allocation of local Swiss pensions.

The allocation to alternatives of semi-institutional investors such as family offices is more sizable and consists on average of 20% private equity and 8% hedge funds.

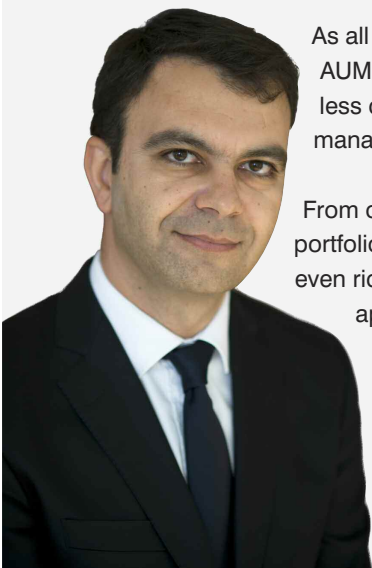


Matthias Knab

We recently published Fidelity's Global Investor Survey on Opalesque. Fidelity surveyed 922 investors globally, institutions with a total asset base of 21 trillion. 72% are saying they would increase their allocations to illiquid alternatives and 42% say they will increase their allocations to liquid alternatives.

Sherban Tautu: When we look at the indices, we all know very well that the hedge fund industry's track record has been average, to say the least, over the past six, seven years. We have also seen that the press is exaggerating the critics, by sometimes doing "hedge fund bashing". When we look at other liquid investments, of course bonds have done extremely well, but we are now clearly, as Dominique mentioned, in territories where we can hardly see any significant further upside. Equity valuations may be rich but they still have further room to grow because of potential government decisions, fiscal stimulus, etc., which is a big discussion nowadays that could have a positive impact on equities.

The search for yield is a problem in most parts of the fixed income asset class, where only emerging markets debt and high yield remain an interesting opportunity for our investors. As I mentioned, we are also positive on equities because of the potential fiscal stimulus in the US and in other parts of the world. Looking a bit further into the future, hedge funds remain an essential element of diversification and performance attractiveness. If **interest rates rise**, the hedge fund sector will benefit from that. Rising rates will have direct, positive impact for certain strategies, which should help.



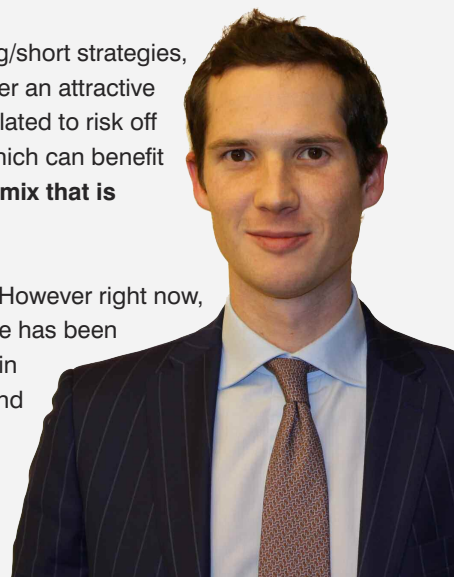
As all of you, we see the hedge fund industry going through **structural changes**. While total industry AUM still seems to go up, we also see hedge fund managers closing, which means in some cases less competition which can lead to greater dispersion and better opportunities for certain type of managers.

From our perspective, going forward hedge funds will certainly remain a key part of a diversified portfolio. It's actually **private equity which is a big question mark**, because valuations are probably even richer than in listed equities with so much money chasing opportunities. At the same time, the appetite is just incredible. Family offices and ultra-high-net-worth individuals love to be invested in business, alongside an entrepreneur. This desire has certainly increased post-2008. They want to own a share of a business or of a building when it comes to real estate. But also here, while private equity may seem rich, at the same time, there are so many new fields of technological development that some parts of PE will certainly continue to thrive.

Clément Leturgie: I tend to agree with Sherban. On our side we also see a considerable amount of investors trying to diversify their portfolio by chasing yields in emerging markets, and moving to buy and hold in high yield. While this is interesting, this is still beta, so it's not really alternative investing.

In terms of alternative strategies, investors can access carry through market neutral long/short strategies, in fixed income, currencies and equities. When levered, these alternative risk premia offer an attractive carry. However, the drawdown of such strategies remain important and tend to be correlated to risk off period. In order to limit this, we combine such strategies with trend strategies or CTA which can benefit from sell off and help limit drawdown. This is an example of an **alternative risk premia mix that is working quite well** and can deliver attractive returns over the medium term.

I also agree that the hedge fund offering is attractive for investors in the years to come. However right now, it feels like some investors have started to throw in the towel as hedge fund performance has been disappointing lately. But at the same time you also see investors waking up to the risks in the bond market and the need for diversification. On our side we have seen this need and demand for uncorrelated strategies over the last two to three years. Belief that Hedge Fund will be the solution however has started to faint post Q-1 2016.



Matthias Knab

From where, from which types of clients do you see actual demand for hedge funds and alternative investments?

Clément Leturgie: Demand for uncorrelated strategies is broad-based, in Europe at least. On hedge funds, we've seen demand mostly from banks, independent asset manager and private clients. Demand from insurance companies and pensions (at least in Switzerland) is negatively impacted by regulation. The market is also very consultant driven. So, as I was saying, interest toward hedge funds has started to decrease post Q-1 2016 and the industry has experienced outflows.

For my part, I think **investors need to look forward and stop looking backward**. As traditional risk premia become increasingly tight, the risk of a correction increases. In this environment, the need for diversification is high and hedge funds offer a credible solution. *Seeing so many people giving up feels to me like the peak of the cycle*. It is when investors need hedge funds the most that they are exiting. This is very frustrating to me.



Vincenzo Zinnà

We talked about investing in private equities, and I was wondering what is a typical time horizon people actually hold private equity investments. Do they really hold it for 10, 15 years and longer, or do they invest also for shorter time periods?

Sherban Tautu: That's a good question, because indeed clients, especially the private clients and family offices, are not so keen to hold PE for 10 years or so. That may be the case for pension funds, but private individuals are looking more and more for **co-investment**, one of the reasons being the better liquidity that they offer.

So what we have done this year, for instance, was to offer co-investments in private equity situations which are two to four years max from IPO. For instance, one company we got involved is Didi, which is the Uber of China. We believe that Didi's IPO should come in 2018, maybe 2019. So this is a horizon which for private and family office investors is more acceptable than a 10-year horizon.



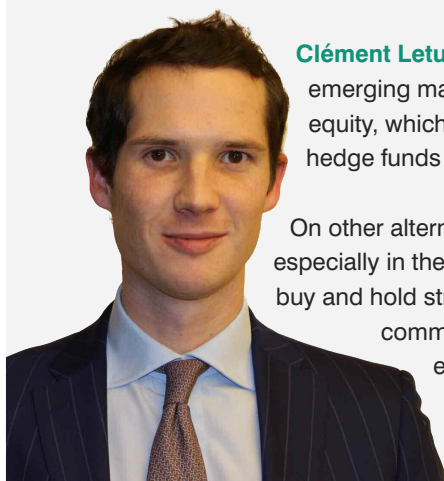
Vincenzo Zinnà

Thank you very much, I have another question regarding bonds. You said that bonds are high and that you're doing emerging market bonds as well.

I was wondering if you are also doing some hedging with Eurex products such as Bund, BOBL, or Schatz Futures?

Clément Leturgie: Such kind of hedging exists, but remains tactical. We have seen a lot of interest in emerging markets indeed, bonds and equities. Investors are also increasingly going into private equity, which is kind of funny because the same investors may tell you that they are not interested in hedge funds because they are illiquid, and then lock up money in private equity for 10 years.

On other alternatives, there is also interest in insurance-linked securities and, with the reflation theme, especially in the US, a renewed interest in commodities. I am not a commodities expert but I believe a buy and hold strategy can be costly over the long term because of the cost of rolling exposure. I believe commodity investors need to be tactical and carefully analyze their investment strategy to ensure implementation is optimal in terms of rebalancing frequency, risk exposure and cost of rolling exposure.



Dominique Grandchamp: If you want to improve your bond yield, there are mainly four ways to achieve your goal; increase duration, increase credit risk, increase illiquidity or increase foreign currency exposure or any such other factor which can lead to higher yields. You can also allocate to more exotic risk-return drivers such as inflation-linked and insurance-linked investments or even structured credit.

However, there is really no free lunch and an increase in yield is unavoidably the result of a well-managed increase in risks. Take for example sub-investment grade credit, typically high yield. Investors sometimes tend to forget that at a portfolio construction level high yield is already quite close to equities in terms of its underlying quantitative properties compared to investment grade bonds. So adding high yield to the asset mix actually increases the equity-like risk of the portfolio.



Hilmi Ünver: After the debacle of 2008 where we saw hedge funds gating and locking up capital, we had to find a new approach to invest our clients' money. Therefore, we had to diversify through traditional investments, which are more liquid but also more correlated to equity markets.

Today, typically the way we invest our clients' money in a balanced account is about 2% cash and about 10% in short-term bonds. We have around 14% in what we call high yield, convertibles and credit. We have a bucket called absolute return, 25% of the assets where we have one of our flagship fund of funds Pendulum (received a price for the best Swiss fund of hedge funds all categories from 2012 to 2015 by the Swiss Finance Institute) which has compounded since January 2009 at 4.56% with a volatility of 3.24% and a Beta of just 0.1 to the MSCI World. We combine within that bucket some systematic products and a very liquid low volatility product. Today, our equity exposure is around 49%, combining long-only products which have daily or weekly liquidity and our flagship fund of funds (long short equity) such as Haussmann and/or Lynx (which received a price from Eurohedge for the best European fund of funds over a period of 3 years).

Today investors are desperate for yield and some go to some extreme in investing in emerging markets and some stressed high yield investments. However, I think the fixed income market has been completely biased by central banks, and we have to be extremely careful.

There is a certain momentum in the markets after the Trump election, and we also see the face of Europe changing slowly and there could be opportunities here as well. *When it comes to hedge funds I actually think that over the long run they have delivered what investors have expected in terms of compounding returns, dampening volatility and containing the drawdowns.*

Sure, hedge funds hit a road block and were challenged in January and February 2016, but when we remove those two months, I think funds have behaved extremely well. These accidents can happen, and therefore we should rather focus on the quality of the managers and organizations that you want to be invested in, and this is always what we have tried to do.

So I agree with you that hedge funds should remain a portion of your asset allocation, and actually **an important allocation**, because I don't think you are going to get the sort of yield or return that investors think of by going into emerging markets or in Japan. When the world is not doing well, these markets are going to be challenged as they are sensitive to international money. However if there should be some sort of correction due to recession or depression, whatever you want to call it, I think these markets will be first hit very badly, and investors typically are not able to time such events well and they will not get the liquidity to pull out.

Of course, also a hedge fund can fail you. But at the end of the day, if you are well diversified and invested with the right people, over the long run hedge funds can deliver you and match your liabilities that you will have in over 10 or 20 years. *I think people should not necessarily make a judgement on hedge funds over a period of two months, six months or one year. We should look over longer periods, and people will realize that hedge funds have been a very good compromise and delivered proper risk adjusted returns.*



We already mentioned it, the environment is different, it's more challenging and there is some overcrowding that makes them feel like they are all correlated, but nevertheless, investors can have **tailor-made portfolios** constructed to their needs. For standard funds of funds things might be a bit more challenging, but there is certainly a lot of growth and potential for mandates.

A number of private banks here in Geneva get substantial new business from new clients who come for tailor-made portfolios. We listen to our clients, and we try to model and build according to their needs, and we include hedge funds along with long-only daily products. Again, our view is hedge funds will keep delivering and you have just to make sure that you have the right people and keep your investments over a longer term.



Harvest is partnering with OpalesqueTV to offer the 'must-have' marketing bundle for hedge fund managers.



VIDEO

OpalesqueTV produces hundreds of manager videos for the industry's biggest names. Enhance your brand and SEO through highly engaging, professionally produced video content.



AUDIENCE

Seamlessly distribute your content across both Opalesque and Harvest - increasing your exposure to over 100,000 institutional investors, RIAs, consultants, family offices and HNW investors.



COMPLIANCE

Harvest's software is designed to work within your compliance procedures to help generate reverse inquiry leads for your sales team - based on the parameters you specify.



DATA ANALYTICS

Harvest's behavioral data analytics provide the real time intelligence that your sales & marketing team needs to maximize prospect engagement and client partnership.

Emerging Manager

Starting at \$15,000

OpalesqueTV Video
Verified Profile
Content Syndication
Compliance Toolkit
Content Promotion
Content Performance
Support (Business Hours)

Onboarding
Reader Type Data Insight
Reader Cohort Analysis (1 Report)
Individual Reader Detail Data
Exclusive Content (1 Product)
Lead Generation (1 Product)

Enterprise

Starting at \$50,000

OpalesqueTV Video
Featured/Verified Profile
Content Syndication
Compliance Toolkit
Content Promotion
Content Performance
Support (Dedicated)

Onboarding
Reader Type Data Insight
Reader Cohort Analysis (5 Reports)
Individual Reader Detail Data
Exclusive Content (3 Products)
Lead Generation (3 Products)
Universe Insight Consulting

Go to www.hvst.com/info/opalesque or contact sales@hvst.com to learn more

Hilmi Ünver: We like hedge funds run by people that are completely committed to their business and engaged to deliver proper returns. I was just in London for two days where I went to visit the ones that are my highest convictions, and those people always give me the same impression. Those managers and their key staff have a large amount of their own money in their funds, and they are extremely committed to provide an attractive working place for all of their employees so that they feel happy to come in the morning and motivated to work on the next big idea that will allow them to extract alpha.

Of course, we and others have also made mistake over the years, but we learned from them. A mistake we have done historically when so much money was pouring into the hedge fund industry, we allocated to some managers that were not prime. They were second or third generation managers spinning out of some well-known established hedge funds but hard closed, pretending that they can duplicate what they have done in the first place. *Very few managed to deliver.*

We are extremely transparent with our portfolios, and I can assure you that *the ones who have performed for us the best are those we have had money with for 10, 20 years.* They continue to do it because they have the spirit of saying, "First of all, we have to deliver money for our clients."

Fees are of course an issue. Some are lowering the fees from very expensive to still expensive while some were already at a descent pricing. But at the end of the day they need to have some means to offer and pay the employees so that that everyone is committed to giving their best in order to beat the market.

Some of the new start-ups out there claim they can do so much better because they have a good sales pitch. A trap not to fall in is to be driven by the returns. Some of these funds manage to deliver on their first year and maybe a second one, and then, they start to raise some assets which go hand in hand with lower returns. It has to do with a risk averse attitude and also to some turnover within their organization. The format is changing, and then you get the underperformance. The key is to identify a firm that puts in place a real working spirit and a real engagement from each of the employees and partners.



Dr. Karl Sarkans: Just a comment on the fee aspect. I have created this fund because I had the money to invest myself. I was thinking of retiring, but then *I decided to create a hedge fund that as a private investor I would like to invest into.* We therefore have a zero management fee, no costs charged to investors and everything is tied in the one performance fee. If we do not make profit for our investors, we make nothing. Of course, from a business perspective this is a challenge, because what if you don't produce returns? But that's what I would like to see as an investor. If I put my money in, I want to make sure that the person managing my money is making money and is not getting rich while I am making nothing or a negative return.

One thing we haven't talked about yet is the wave of these **robo-advisors** that are coming out globally and that process of automatic allocation of growing amounts of money. That is a very interesting trend because I tend to trade on anomalies around those flows. Kind of a robo-killer! I am a specialist trader of announcements, this is the best way to describe my strategy. It does not matter whether a market is going up or down, we should be able to make money.



Stocks right now seem stretched. Amazing to hear justification for existing valuations and even arguments for why they are cheap. I believe we are still going to have a run upward coming, with Trump promising everything, and spending another trillion on roads and infrastructure. Everyone is excited again and they are throwing their money back into the US market.

With these robo things I have noticed a change in global trading patterns in the last five years. I believe it is related to these robo-advisors and automated trading systems in the markets.

We also looked at automating what we do for some time and ran a series of test. They ran for a while, made some money, although not outstanding, and eventually had a failure. They are based on someone's idea at a point in time, based on a historical pattern. That is nice if history repeats accurately, but it does not. The 'buy dips' optimized traders from the last eight years will be in for a surprise when their dip keeps dipping! Keep that money flowing to the auto traders and we will be able to keep making money from them.

Do you guys see more or less money flowing to systematic funds?

Sherban Tautu: Where we see money moving into is clearly quant funds, either chasing momentum or some other factors. Alternative beta, risk premia and factor based investing have become the next big thing, so there's a lot of money going to that.

Contrary to you, Karl, we hear many traditional macro managers are complaining about this evolution, arguing that these quant strategies would basically not allow the market to go wild or to extremes anymore, because this is when they traditional macro managers usually make money, when nobody wants to touch the market anymore. But nowadays, when the market goes down by 5%, quant funds already start buying. So my experience is that money is clearly going into such products and that people complain about it because it is changing the market landscape.

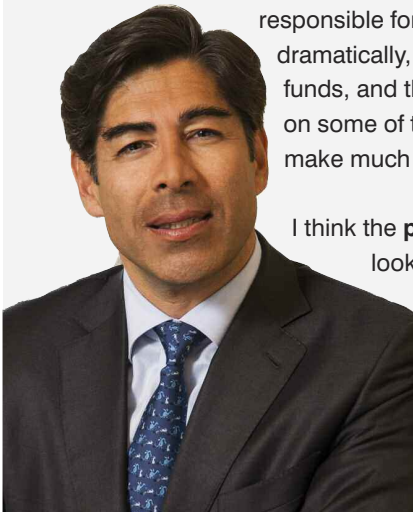


Matthias Knab

We discussed the robo-advisors also our recent Netherlands Roundtable. One expert said robo-advice sometimes is associated with "smart" machine learning algorithms but that most robo-advisors would not use using "smart" algorithms in their investment strategies but for the most part invest passively in long-only ETFs. Most robo-advisors' strategies would certainly be less sophisticated than most systematic or CTA type of funds.

But coming back to Sherban's comment, I wonder if markets in the end become more efficient if these automated systems take out the extreme volatility?

Hilmi Ünver: We have about 6% in the systematic managers, and I think they are probably doing a good job because they don't have this element of emotion. Technically they can protect you in difficult times, but we have seen also that when we needed them, they have failed.



I do believe systematic traders and automated systems provide some sort of liquidity, and I don't think they are responsible for any massive changes in equity behavior. But there is one thing that has changed quite dramatically, which is how the central banks intervene. In a way, they have become the biggest hedge funds, and those players can really move markets with just one announcement. You saw the movement on some of the banks; Monte dei Paschi goes up 100% in a day which for a bankrupt bank doesn't make much sense.

I think the **political aspects** of our environment is very much responsible for a lot of distortions. If you look at the fixed income markets you can clearly see how the ECB announcing yet another program and buying all these corporate bonds are really changing the shape of markets and pushing toward a mispricing. Something is going to happen on that side, and I don't think it will be the robots or the quants who will be responsible when there will be an illiquidity trap, because at that time simply everybody will rush to the door to sell their holdings.

Clément Leturgie: I agree that the central banks interventions distort fundamentals, making the fundamental hedge fund managers struggle to deliver performance.

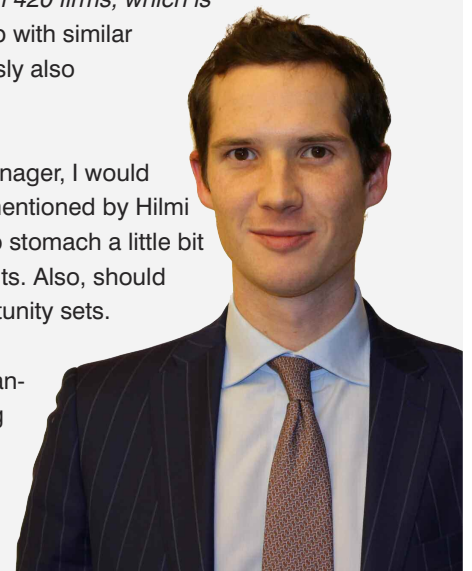
However, I do believe that the **quants also distort fundamentals**, chasing momentum and amplifying movements. In my opinion, this is also one of the key factor of hedge funds underperformance. In my view, *quants tend to extend movements, while fundamental analyst with tight risk constraints are stopped out of their positions, accumulating crystalized losses and struggling to get back into the game.*

Finally, one should not underestimate the trend toward **passive investments** which is also distorting the markets, creating significant inefficiencies. But I think there is a cyclical aspect to that as well in the sense that you need to be massively investing into passive investment when markets are efficient, because this is a cheap way to get access to beta. *However, the more you invest into passive investments, the more distorted the market becomes.* And then at one point, you arrive at extremes where large inefficiencies can be exploited by active managers. Hedge funds are the most active investors because they can go long and short and they should be the ones who can benefit the most from large dislocations and inefficiencies.

On top of these trends, I believe the biggest issue in hedge funds right now is **crowding**. The large amount of new assets that went into hedge funds post 2008 was accompanied by a change in the investor base which went from mainly private clients to mainly large institutions. The latter are looking for hedge funds with long track records, very strong infrastructures, good client servicing, et cetera. As these institutions underwrite very large tickets, most of the new money is increasingly concentrated into the same funds. I remember reading that *88% of the assets are concentrated within 420 firms, which is probably less than 10% of all firms.* So what happens in the end is that investors end up with similar strategies where large amounts of capital is piled into the same stocks and that obviously also emphasizes movements.

To come back on your question about the criterion we are looking for when hiring a manager, I would say that we continue to believe that equity long/shorts will perform, but as it was also mentioned by Hilmi we also think investors need to have a longer term horizon, and they need to be able to stomach a little bit more volatility, because the factors we have discussed emphasize securities' movements. Also, should investors start getting out of equity long/short, this should relatively clean up the opportunity sets.

In addition, to the herding phenomenon, most institutional investors try to focus on clean-cut strategies, meaning they are looking at pure equity long/short funds, or funds doing only credit long/short, only convertibles, or only volatility. If we go back a few years, hedge funds used to invest in equities when the opportunity was there, and then when the cycle would turn they would move into bonds or credit, et cetera.



But now, the fund managers are in a way forced to remain in their respective silo, and stay very focused on one product or one asset class. We see this not only happening in hedge funds, but in long-only as well.

This creates opportunities for managers who have experience and expertise across products and asset classes, and who are able to take a step back and look at potential **inefficiencies between the silos**.

A good example I can give you is around events. Let's say a company announces an acquisition, Merger arbitragers and convertibles investors can price the deal differently. Because, they are so silloed and not looking at what other specialists are doing, this creates some type of market inefficiencies that can be exploited by **cross assets specialists**. By the way, these types of inefficiencies used to be covered by prop desks which are disappearing,.

What this means for us is that we are looking for people trying to find inefficiencies across asset classes and to be in less crowded trades and strategies.

We also like managers who are very active in trading to manage and mitigate volatility. Finally, we are looking for people who have a **technological edge**. Markets are overwhelmed with more and more data and information, but with the appropriate technology managers can analyze economic and markets data in a very efficient and quick way, gaining an edge over more traditional old school managers.

Dominique Grandchamp

I just wanted to come back to the secular move towards passive investments. We believe this is definitely one reason why some hedge fund strategies are less able to perform. I think the shift towards passive is here to stay and will continue. Going forward this could become a problem.

Matthias Knab

Why is this going to be a problem?

Dominique Grandchamp

It's going to be a problem, because we had a nice ride in bonds and equities for many years now and everybody is happy to pay only a couple of basis points in passive replication strategies, however one day suddenly investors will realize that they can also lose money when markets turn for a longer period of time and that they are actually sitting in a car without brakes.

Dr. Karl Sarkans

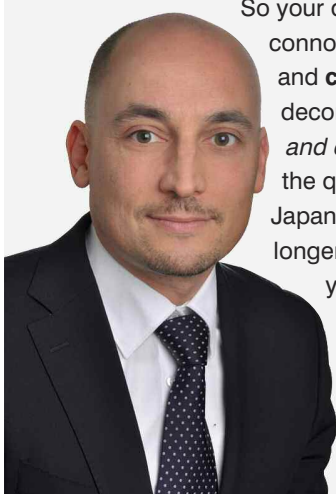
I am trading against probably many of your clients, Dominique.

I am wondering, when consultants work with their clients and come up with these models, what time periods do they look at? Does it include the big crash of 2008/2009 or is it an optimization of the beautiful recent run thereafter? It appears there is a lot of uniformity in the statistical numbers post-2009 flowing into the models. Or am I wrong?

Dominique Grandchamp: Most institutions carry out an ALM - also called **asset liability study** - on a periodic basis. So we look at liabilities and try to forecast their evolution, and then we look at the different asset classes, their expected returns and risks on a forward-looking basis. And based on that, you work on a strategic asset allocation where the assets match the liabilities. So, this is an exercise we do that all the time with clients.

In my view, the only asset classes where such a ALM is semi-deterministic is for bonds because you know that you can get paid at maturity and then can refinance unless the company goes bust, but for investment grade bonds, we can really assume that the investor knows what he will get because default rates are low.

For equities, that is much more problematic. If you look at the dispersion of expected return and expected volatilities over the next 10 years of various firms from consultants, banks to asset managers, you find that there is a huge disparity of forecasts. *We have just done this exercise very recently on the local Swiss equity market, and the expected return for equities over the next 10 years varies between 2% and 10% per annum.* Historically over a very long period of time which includes 2008, it was about 6% with an annualized volatility of 20%. But now, the return dispersion is so high that depending on what you put in the model, you get very different allocations, so this is a very challenging exercise.



So your question regarding time horizons and if a 2008 crash has been included or not has even broader connotations. The main factors of any portfolio optimization are expected returns, expected volatilities and **cross-correlations** of all asset classes. Now, if you look at the cross-correlation, there was a strong decorrelation between bonds and equities over the last 10, 20 years. *But if you go back further, bonds and equities were much more correlated than today, but it seems we have all forgotten about this.* And the question now is what's going to happen when the central bank interventions in the US, Europe and Japan will stop? The general assumption about the robust decorrelation between bond and equities over longer time periods might not hold or might not be applicable in the future anymore given that bond yields are very low or negative and that they can actually only stay low or go up. This means that there are *many uncertainties around the behavior of asset classes moving forward.* Deriving an actual strategic allocation from expected asset class behavior is of course very challenging, particularly given the fact that the strategic asset allocation derived from this exercise will generate 80% at least of your returns moving forward.

Dr. Karl Sarkans

I agree that this is a huge challenge. When modeling an asset liability study, do you put more weight on say the recent five years or are the years equally weighted when looking at longer historical periods? And lastly, do you in any way try to anticipate what may be coming?

Dominique Grandchamp: Well, first of all, in an ALM we use some historical indications because you have no other choice, we have to use the past to a certain extent. You cannot be completely disconnected from the past, but we still have to question everything and try to look deeper. For example, as I mentioned before, we may assume that the negative correlation between say, sovereign bonds and equities might actually not be applicable in the future for a long period of time. But if the bond equity correlation pair is not negative but say turns positive over a decade, that would be a massive problem for all large institutions.

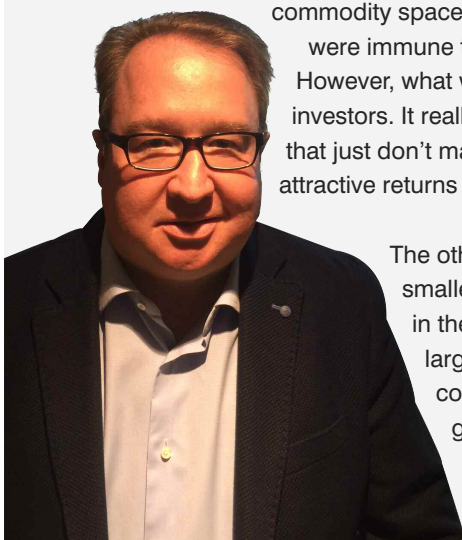
And the other thing which most consultants do, like any bank or any asset manager, is to work on a forecasting model which tries to forecast the expected return and then blend that to a finer model. But at the end of the day, it's a model and the dispersion of outcome from the various models can be quite significant. If you talk to many market participants and you hand them the typical allocation of a pension plan asking to give you a quote on a median expected return and the median volatility over the next 10 years, you will have a vast dispersion of results.



Stephen Smethurst: I just wanted to add a few things to our discussion of systematic versus discretionary investment management. We are monitoring this trend as well. We think there is roughly 20 times more money in systematic than discretionary investment management strategies right now, and *as more money pours into these systematic funds, the returns are actually getting worse.*

But we see this as an opportunity. It's basically increasing market volatility, and we like the volatility. Because we're small we can basically wait until the stars are aligned to strike. So when we see the robots coming and buying, we can try to get in front of them. On some days, the market seems to just take off, but we know that eventually the producers are going to wake up and the markets will be coming back just by pure gravity, and the reverse when the market drops too hard. At some point the end-users come back in and set it to rights.

We also see that in such an environment the bigger funds struggle because they are not nimble and dynamic enough to take advantage of these moves. We are one of the best performing commodity funds right now, we are winning awards, and so for us, commodities work out.



It's been a bear market for probably around five years, between 2011 and 2015. A lot of investors in the commodity space got burned in this period, especially the passive long-only guys, but to be honest few were immune to the downturn. Even the family offices with discretionary active managers suffered. However, what we are seeing now in response is **almost irrational levels of risk aversion amongst** investors. It really is a kind of extremist diversion: People putting money into bonds with negative yields that just don't make any sense. Why pay for terrible returns when firms like ourselves are offering attractive returns in a relatively low cost structure?

The other challenge that a firm like ourselves faces is that consultants tend not to look at smaller firms until they've reached around 300 million AUM. But there are a lot of managers in the 5-200 million bracket that are performing very well; while as we have discussed, in larger funds you can find that crowding has resulted in significantly lower returns. Of course, from the investor's perspective it's a lot easier to write a 500-million ticket to one guy rather than write ten 50 million tickets, but they're forfeiting the chance to get far better returns and leave the rest of the sheep behind.

Matthias Knab

Tell me more about your firm and your investment style. What is your edge, how are you different from other commodities funds?

Stephen Smethurst: As I mentioned in my introduction, Zafiro is a relatively new fund here in Geneva, but I have worked as a PM for much bigger funds and have run teams in big trading houses and investment banks. So, as an initial answer to your question, I think my strong pedigree of success sets Zafiro apart from other emerging commodities funds. Moreover, in the two years we've been operating, our fund track record has been very impressive. Our institutional infrastructure is highly investible, with a scalable investment process that means these returns are replicable for investors.

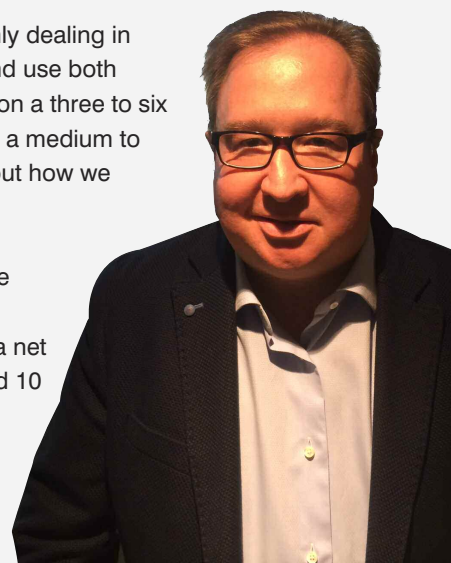
However, what we've found is our AUM of two million is too small for virtually every investor right now. I could probably name on two hands the investors that were willing to invest at this level. But if AUM were at 50 or 100, I could name around three times as many that would come in. So it's like a chicken and an egg situation for small funds like us. If we were at 50, we could probably be at 500 in three months.

This is related to what I spoke about earlier, about the general sense of risk aversion right now. The past couple years have been tough because people were willing to accept low to negative returns along with high fees, instead of taking on a bit more risk and earning great returns. However, we're optimistic that investor sentiment will come back round. I mean, with returns like ours that are up around 81% gross since inception, how can they not!

I know there are a lot of other managers in a similar position to myself - the small AUM, an entrepreneur, the two year track, and trying to get their funds going. However, what we think is special about Zafiro is our pedigree and performance, and the fact we've got a business model already set up to respond quickly to investment and expand. We've got an office in Geneva, an institutional structure, and are successfully managing a budget. All this means we're ready to grow.

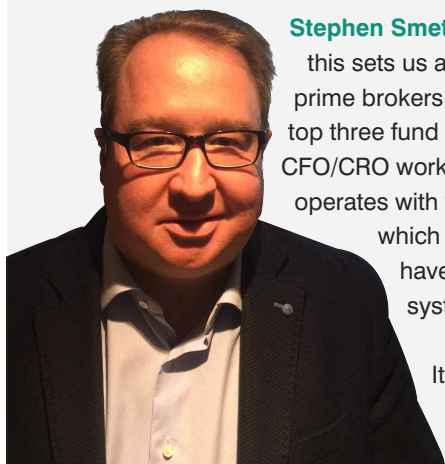
In terms of trading style, typically we operate as a discretionary commodities fund, mainly dealing in energy and precious metals. So we look for macro trends, supply/demand balances, and use both fundamental research and technical analysis to decide when to strike. We tend to work on a three to six month trading timescale, but have been known to trade on a tactical basis as well as on a medium to long term fundamental basis. Our nimble size means we really can be discretionary about how we operate, and quickly take advantage of market moves to generate absolute returns.

This year we have been asking ourselves what more can we do to get investment. We've identified key themes, backed them, and despite being a little early on Palladium and stopping out on crude longs in Feb due to risk management controls, Zafiro has made a net return of 44.67% YTD. Into 2017 we'll be offering a funding share class with fees of 1 and 10 and fund costs capped at 50bps, and a seeding deal on attractive terms. This is cutting fees down by half of standard levels, as well as limiting the impact of fund costs to investors.



Matthias Knab

When you say you have an institutional infrastructure, can you describe it a bit for us?



Stephen Smethurst: Sure. So the reason I mention the institutional infrastructure is that we really feel this sets us apart from a lot of other small scale hedge funds. We're working with multiple leading prime brokers, our documentation is from highly respected legal counsels, and we've got one of the top three fund administrators on board along with a double A rated custodian. Our very experienced CFO/CRO works closely with our compliance consultant and reputable auditor to ensure that Zafiro operates with the upmost professionalism. Our independent directors usually work with larger funds, which we think speaks to Zafiro's quality. We're working exclusively with well-known names. We have all the kind of systems in place that investors expect, like award-winning client reporting systems and, of course, real-time portfolio management.

It's pretty much the same infrastructure I had in an \$11 billion fund; in fact it might even be better.

Matthias Knab

Karl, could you also please explain more to us about your strategy and your returns?

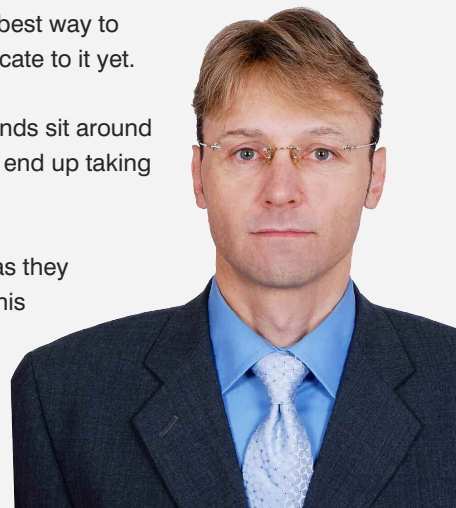
Dr. Karl Sarkans: Our strategy is global macro. From 20 years managing many strategies from emerging market equities, to developed market equities, fixed income and high frequency, what frustrated me was that these strategies had their beta making money in some parts of the economic cycle and, losing or flat returns, regardless of how good you were as a manager, in other phases. So I wanted to create a special fund where the phase in the economic cycle did not matter, where we could in 'all seasons' make money.

I remember a trade I put on 10 years ago that I was able to justify in a hundred ways fundamentally that it was excellent and undervalued. It stayed flat for two years and finally had a bull run after that. What I decided was to marry some technicals to the fundamentals to ensure we have no dead money, no money sitting around in markets that are not moving, like the one I described. We are 70% fundamental and 30% technical ... is the best way to describe what I do. If the market isn't going to go up or down, there is no reason to allocate to it yet.

I am seeing money moving into what I believe is faulty near term statistics, where big funds sit around a table and need to justify to 100 people every move they make. They come in late and end up taking the hit when the market turns.

I also believe a **big disaster** is coming for the robo and automated passive strategies, as they optimize history. Somebody needs to add an anticipatory factor there. However, while this trend rolls on, we will have more and more overvalued markets.

So, getting back to what we do, I look for what has changed in the world that justifies a higher or lower value on assets. Then I look for what assets will be most affected.



Matthias Knab

Quick question. How many positions do you run and is leverage playing a big role in your returns?

Dr. Karl Sarkans: Our positions are always concentrated to better manage risk. We are out of the market most of the time, but when in, we have one to five positions. We look at correlation to the event and correlation between assets chosen.

Cross correlations between those assets and their movements create some natural hedge in the portfolio, smoothing returns. Then we decide the size, also going back to the technicals. "How far can this market move against us on the opposite side?", is always my concern for the downside. "Where's our capped downward movement?" That determines our allocation size. It has been working with good consistency. We have a return this year of plus 90% last year plus 30% and three years ago plus 75%. I created this whole program. It's like a rule book that I trade from, and I follow that rule book.

There's average leverage and leverage of when we're in the trade. Those are two different things. *We are only in the markets from one to five days in the month.* The thing that I learned as a trader in the markets over several cycles is to take a position off. I have seen so many times a trader has a nice profit and then see this all taken away again. I prefer a bird-in-hand to two in the bush. Fantasies of making a huge return may or may not work out, and usually do not. So, best to live in reality.

Therefore we have exposure of one to five days in the month only and the rest of the time we are in cash.

I am also averse to binary movements like Brexit. We are in cash for these events, regardless of what the 'polls' say. Donald Trump and Clinton was another great example of the accuracy of polls and how they can damage your portfolio. "No thanks" is what I say to such movements, and therefore I avoid them completely.



Stephen Smethurst: Given the timing of this Roundtable, I think we should talk about oil and what the recent OPEC meeting really means. Obviously there was huge amounts of capital betting on non-OPEC going either way in terms of compliance, but now we see that the whole global supply and demand pattern for oil has changed. Consensus had been that we were going to see the market just about balancing in 2017, but now, potentially, we're looking at a pretty decent supply cut. It's the northern hemisphere harvesting season in Q3 where we see the big demand coming from.

We think **oil could get to \$70** pretty easily. Obviously there'll be a supply response from the US from shale, but it'll take time for them to ramp this up. So long as OPEC go ahead with the cuts they have promised, we see \$55 by Christmas and see \$70 by the middle of next year. To be honest, it's much easier to see the cuts happening on oil this time around because now, rather than quotas being set on a total OPEC basis, the cuts are broken down on an individual country by country basis.

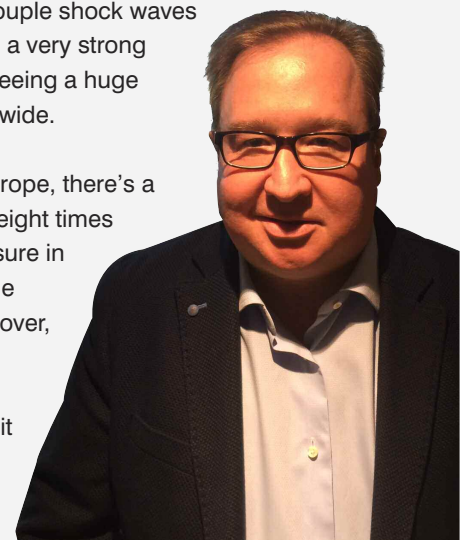
So now each country is going to be followed, and they're going to have to respect their individual quota. It's going to be independently monitored, so we will be able to see who is cheating and who isn't. Therefore, I think, there's a clear incentive for everyone to stick to those agreed levels. I think the economics makes sense. You cut by 3.5% and you get an extra 50% in revenue. Instead of getting a billion a day, you could get a billion and a half, possibly even two, and therefore economically the deal makes sense. I think that's probably the most significant change that we're going to see into 2017.

Precious metals are also pretty interesting. Palladium has been our big thing this year. It rallied 24% last month even though gold collapsed. The supply/demand momentum is very, very strong. There's a deficit of about 1.5 million ounces in the market, and it has been in deficit for the past five years. People are talking about electric cars but the reality is that they're still going to remain niche for some time in terms of the negative impact on Palladium demand. There's not enough lithium in the world to make this many cars, so there'll be some really big issues for the growth in this market.

Total car sales currently sit around 88 million per year, and we see this growing to around 120 million by 2025. VW's legacy has been to discourage people from using diesel cars, and the subsequent environmental legislation to ban their use by 2025 in cities like Paris, Madrid, and Athens, means that this increased demand for cars will fall predominately on gasoline cars, and their palladium-based catalytic converters. *70% of palladium use falls on auto catalyst, so we're pretty bullish that the demand story is going to keep going up. We'd even go so far as to suggest a possibility of running out by 2021.* So there are some big supply issues coming and therefore prices I think can only go one way. It's a real buy and hold story, and in 2016 it was very good to us.

The other thing that we trade is **carbon emissions**. Trump's election obviously sent a couple shock waves through this market, and things may well change, but up to now at least there has been a very strong renewable focus by politicians worldwide. This is probably unlikely to change. We are seeing a huge switch to solar and wind power and it's making massive differences to power use worldwide.

In Africa, places like Morocco are building huge solar plants replacing fossil fuels. In Europe, there's a carbon market and the predictions are the prices could go anywhere between five and eight times the current price, so the potential upside is huge. We see EU carbon prices under pressure in 2017 without any political action to bolster them. However, inaction is not a certainty. The downside could be around 2-3 Euros, but the risk is asymmetric to the other side. Moreover, not a lot of people are trading it. There are not a lot of funds involved. It's a very small market but it's trading around \$120 million a day, so may be in a fund of \$100 to \$500 million, you can play it quite actively. It will be all about timing, good judgement and a bit of luck.

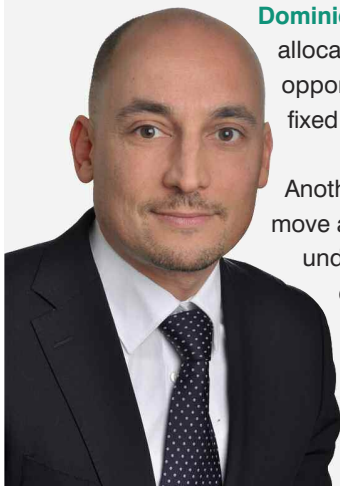


Sherban Tautu

When we structure our investments we look at the entire liquidity spectrum from very liquid investments performed through individual stocks, bonds but also cheap beta exposure through ETFs, until the other end of the liquidity spectrum where we target PE opportunities, mostly through individual deals. And in the middle you have the hedge fund space where we, as I mentioned before, believe it will probably deliver increased alpha and performance through better dispersion and lower competition going forward and, not to forget, also because of increasing rates.

Matthias Knab

Let's look at innovation, new products, new services or new developments in general.



Dominique Grandchamp: One asset class where we see a lot of interest and where we have started to allocate a couple of years ago and continue to do so is **private debt**. We believe private debt offers the opportunity to capture an illiquidity premium and to generate higher returns compared to traditional fixed income asset classes.

Another mega trend we see in institutional investing is around **risk premia allocations**. Many clients move away from a straight traditional bonds, equity, real estate mix and start looking more at the underlying risk premia. It's a major trend and it applies to the traditional long-only side consisting of equity premium, interest rate or term structure premium, liquidity premium and then goes all the way to alternative risk premia. For us it is a very interesting exercise to do with clients because it often leads to discussions with our clients about where the risk comes from and what the effective drivers of portfolio returns are.

Vincenzo Zinnà: Before I talk about new products, let me perhaps speak about risks and hedging them first. I am based here in Switzerland, so I am going to Swiss and Italian asset managers and Italian banks and showing them opportunities to hedge a portfolio. It's clear they know how to hedge with futures, short calls and long put. You all know, if the market goes down and you hedge with puts, you lose the first 3%, 4%, 5%, it depends where the strike is. We saw that it is better to sell an in-the-money call for your position because then you have a real hedge for the first 10% for example. In the last 5 months as market stayed at the same level, volatility came down, so the selling of options was even better. At this volatility level it could be an opportunity to buy options but think about the time decay.

So let's speak about some of the new products we will launch. We are always asking the asset managers and banks what kind of products they need from us. One example is, we asked clients if they would be interested in the Spanish Government Bond BONO, and then we brought it.



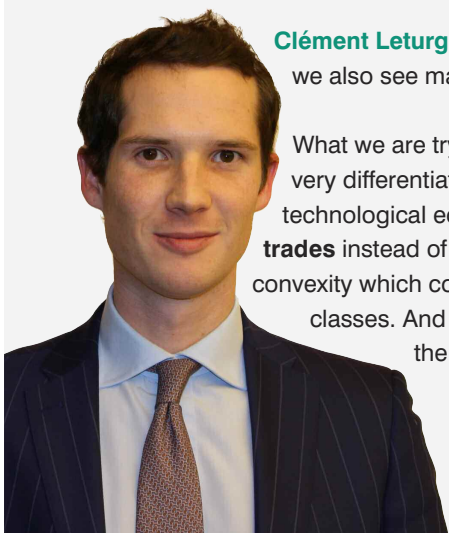
One of the new products that clients asked us to bring is the Total Return Future. Trading the Total Return Future on Euro STOXX on exchange at Eurex and not the usual swap gives the advantage of avoiding counterparty risk.

Then the other thing is that with our new product called ISA Direct we offer a 'new way of doing business.' We have direct clients that say, "Okay, we want to clear directly but not to be a non-clearing member, because this wouldn't be possible. But we would like to clear directly with you." Following this request but also in order to cope with increasing regulatory constraints we launched ISA Direct.

In this model, the buy side has a direct contractual relationship with Eurex Clearing as the central counterparty (CCP). Our Clearing members act as clearing agent, providing mandatory and voluntary services, retaining their client relationships and ability to earn revenues, but they are no longer exposed to the counterparty risk of their buy side client as they are not guaranteeing their performance. As a CCP we take on the role of principal in regard to the buy side, which means that the capital and balance sheet impact is greatly reduced in terms of RWA and leverage ratio for the bank acting as clearing agent. This is an important new model for reducing capital costs across a wide variety of tradable instruments including futures, cleared OTC derivatives, repo and securities lending.

Other products to mention are the SMI weekly options and the Mini-DAX Future (who had the one year anniversary). The contract size of the Mini-DAX is 5, that means the contract has a value of €53,000 and not € 265,000 like the usual DAX Future.

And then finally, you all spoke about volatility, so you surely know that we have the VSTOXX Futures and the Variance Future for volatility trading. There is some possibility to hedge portfolios with the VSTOXX. Karl said that he didn't trade for Brexit, but he or any other investor with positions in the market could have taken this volatility future as a hedge for Brexit, it would have been an absolutely great hedge because if nothing happens, it stays stable. But if something happens, it goes up. **Using volatility futures as a portfolio hedge** makes sense not only for Brexit but many other situations like the Italian referendum or any of the other votes we'll be having now and in the future. To hedge a portfolio of € 10 mio you should buy 1000 VSTOXX.



Clément Leturgie: Just like Dominique, we also see a lot of managers launching private debt funds, and we also see many investors looking at alternative risk premia.

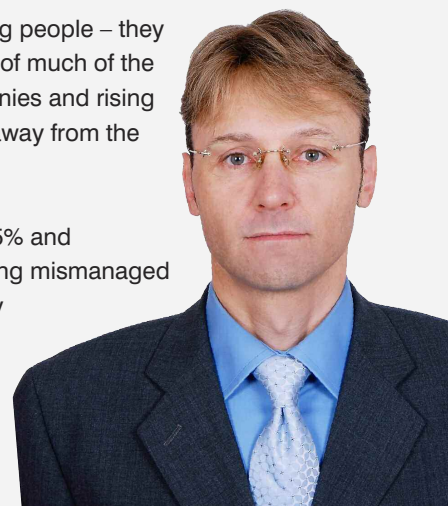
What we are trying to do at 1798 is to focus on niche strategies and trying to find managers that are very differentiated. I already mentioned the need to be able to analyze a large amount of data with a technological edge. We are also looking for managers who are very focused on **structuring their trades** instead of just looking at fundamentals, for example building some trades with embedded convexity which could be derived from inefficiencies the manager or his systems identified across asset classes. And finally, we also look at active traders and niche markets. For example, we just recruited the Volantis team which is focused on UK micro and small caps.

Dr. Karl Sarkans: At this point in time the big white elephant is the recent election in the US. Although one could say Trump is a nut-job, and he probably is, but he's a businessman finally in-charge of a big government, the world's largest economy in fact. This is a dream scenario, I think. He is successful in his business and the things he's suggesting sound pretty good given how governments have crippled their citizens recently with FATCA's and minimum wages and other restrictive non free market nonsense. Trump wants less regulation, a strategy that makes common sense – even if simple – and lower taxes.

This will allow the party in global equities to continue. High valuations in the equity markets is therefore justified in certain places, one of which is the US. I don't know how much of the plan will work out in reality, or if it will translate into real growth, but it sounds good for now.

And then of course, you've always got Asia, parts of Asia with exceptionally hard working people – they are long term the winners, the Chinas of the world. The real risk for Europe and the rest of much of the incompetent world is that the ideas of Donald Trump work out. Rising returns on companies and rising interest rates in a successful economy will suck a lot of money into the US market and away from the weak and corrupt or socialist economies.

Look back at the Asian crisis. Some developed economies continued to grow at 4% to 5% and absorbed smart capital that was seeking low taxes and needed to get away from teetering mismanaged macroeconomies. Countries with negative current accounts will be the worst affected by success in the US or China. The bar may have been raised in how governments are managed and, experienced businessmen may offer better leadership to raise living standards than left leaning lawyers with only words and no practical experience.



Clément Leturgie

I'll be interested in getting your feedback on the fee issue for hedge funds.

Sherban Tautu

The fees that are charged by fund managers can't be distinguished from the funds' net performance. We all know that investors would be ready to pay hefty premiums if they were allowed to invest tomorrow in funds such as Medallion, despite the fund's fees being at 5% management fees and 44% performance fees. So the fee discussion has been more pronounced lately as average hedge fund performances have been less stellar than before. Ultimately, it's not really about fees, but about net returns.



Hilmi Ünver: At the Goldman Sachs conference in June, I addressed the issue of the fees and I think I opened the door because after that I saw some hedge funds making some announcement lowering their fees, but I agree with Sherban, bottom line, it's all about the net return.

People complain about fees today because the returns are low. We were invested with SAC which had 50% performance fee and a management fee of I believe three or four. And I was a very, very happy investor, and I can tell you I will be tomorrow again an investor when he will be able to accept outside investors. Someone has to agree that fees are an easy target, and I also think that in general the **fees should be more aligned** between managers and investors.

Karl is going to one extreme of charging no management fee and just some performance fee. While I think this is very courageous, I also believe that from a

business perspective a manager needs to be realistic as well. Because if you want to hire people and you're going to have bad times, as we all know – I think we invest with great fund managers and they do have bad times – I believe you need to have some sort of cash flow that you can offer secure and decent pay to your team.

But I also think that **fees should adapt to a fund's growing size**. It doesn't make sense that managers continue taking full fees after having reached a certain size. From thereon, I think I would prefer to pay a higher performance fee and lower management fee. This is something the industry should debate about. Just coming back to my high conviction fund manager I saw yesterday in London, I think they have regular fees with 1.5 and 15, and based on that they created a very good working environment and they manage to keep the best people within the firm because they pay them well, and that culture enables them to keep hiring the the top guys. And the other thing is that fees in my view should not be a trigger to invest or not to invest in a hedge fund.

Matthias Knab

You are certainly right, Hilmi, but we shouldn't forget that as Dominique said that Swiss pension regulations and also many other countries, for example, Australia where we also discussed this in our recent Australia Roundtables, require radical fee disclosure. And from that comes the discussion where to really allocate your fees and the move to low fee beta products.

Dominique Grandchamp: Actually, I think the fee discussion for pensions has already been largely addressed. Fees are very low in institutional asset management especially for passive replication. We believe that fees can't get that much lower. Fees are also extremely low for the advisory layer in hedge funds and private equities. Sure, they might get even lower, but possibly that could be to the detriment of the industry. But again, I think that *looking fees in an isolated way is not really the issue, but when there is a combination of fees with low performance and the net alpha is turning negative, then I agree the investors really have an issue.*

In the end, the responsibility lies with the investors. The issue is of course that fees are the only deterministic part of the investing equation. *It's the only variable you know for sure, so the temptation is to overly focus on fees*, but as I said this exercise has been largely done now in institutional asset management, *Meanwhile in the semi-institutional and private investor space, despite what many people think, the fee discussion is still in its infancy*, because when we talk to family offices and show them some comparables of what pension plans pay for the same investment sizes, they understand that there is still a big gap.

So I think many of the regulations which are being implemented now will lead to an environment where there will be even more transparency on fees and transaction costs, and what has started and actually happened in the institutional space will also be implemented for semi-institutional and private clients.



Matthias Knab

That is another reason why the long term view is important when people look at alternative investments, right?

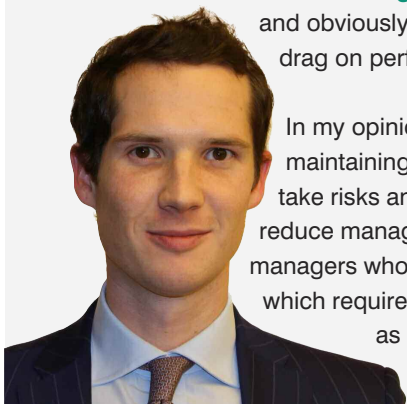
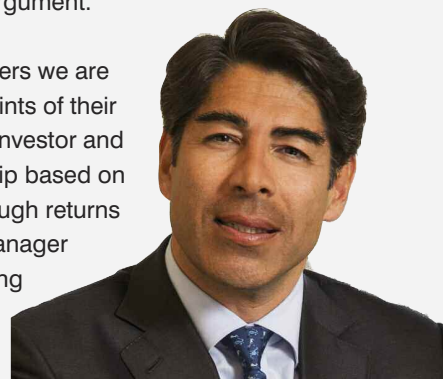


Dominique Grandchamp: Actually, if you really look at the very long term, it's almost cynical to say that fees don't matter that much. Whether you pay 1% of management fees on equities or five basis points, if you remain invested for 20 years, you will probably be happy in both cases. So once more my point is that there is also a limit to the fee debate.

And as Hilmi said, you should not avoid investing in an asset class because of fees. For example, if you don't invest in private equity because of fees, I think that's a very bad investment advice. Even if it can be argued that private equity is expensive, there are also strong reasons for that, and don't forget that you will most probably making an attractive net return over a full cycle.

Hilmi Ünver: Too much cost cutting can on aggregate and in the long run have significant social cost. When people started to outsource and buy everything from China because of the cheaper manufacturing cost, people completely forgot the social and in many cases also environmental impact. At the end of the day, the social loss and cost to the environment can be much higher than what you think you save by buying let's say a glass made in China versus one more expensively produced in Europe. Similarly, we should also reflect on keeping some of the industries with high intellectual and technical capabilities in our economies and pay an adequate price for that than just going with the lowest cost argument.

Just an interesting anecdote in that fee context. Yesterday one of the hedge fund managers we are invested in announced that they will be going to reward us in giving us back 50 basis points of their management fees. So they are going to rebate us 50 basis points for being a long term investor and having stayed with them during the 2008 difficult period. This is creating a real partnership based on mutual trust. If a manager feels they have taken too much fees and not have offered enough returns to the client so that the clients in the end gives up 70% of the investment return to the manager and only getting 30%, then that would be a break of trust between the two parties. Offering such a fee rebate then helps to get to some sort of equilibrium.



Clément Leturgie: A lot also comes down to the risk free rate. Many hedge fund strategies are cash rich and obviously, when return on cash is zero while it used to cover your fees, fees become an important drag on performance.

In my opinion, the issue is when a manager becomes an asset gathering company and focuses on maintaining a large pool of assets to generate large management fee. There is less incentive to invest, take risks and make returns. I agree with Hilmi that there should come a point where managers need to reduce management fee and increase their performance fee. I think we also all understand that emerging managers who need to pay for their infrastructures, especially when they have complicated strategies which require specific technologies, et cetera, can be costly, so it's good to have the two and twenty fees as a start up.

Vincenzo Zinnà

Also we at Eurex get asked the same thing, "Do you reduce fees or the tradable spreads?"

But at the end, if we discuss things like 0,5 or 1 point on a value of 10,600 we discuss about 0.009%, and I think what matters much more is actually the timing when to buy or to sell a product.

What happened in Week 3?

Hedge fund manager A has produced a custom video with Opalesque.TV and it has been online for a few weeks. As with manager A, we sometimes notice that the weekly views of a video can jump several hundred percent from one week to the other.

| Weekly video views | Week 1 | Week 2 | Week 3 |
|--------------------|--------|--------|--------|
| of Manager A: | 110 | 101 | 376 |



There are a range of different reasons for such a sudden jump in views, for example manager A could have:

- won a prestigious award or was nominated to it
- been included in some industry ranking
- been written up in the press / hedge fund media
- just launched a new fund that gained a lot of attention
- posted a (very) good month or year
- etc.

It is safe to assume that on any given day, someone or many will google any hedge fund manager's name, fund name, or company name. Good for those who have a custom made, targeted video online that investors can access any time, and at their time.



Unexpected long-term effect

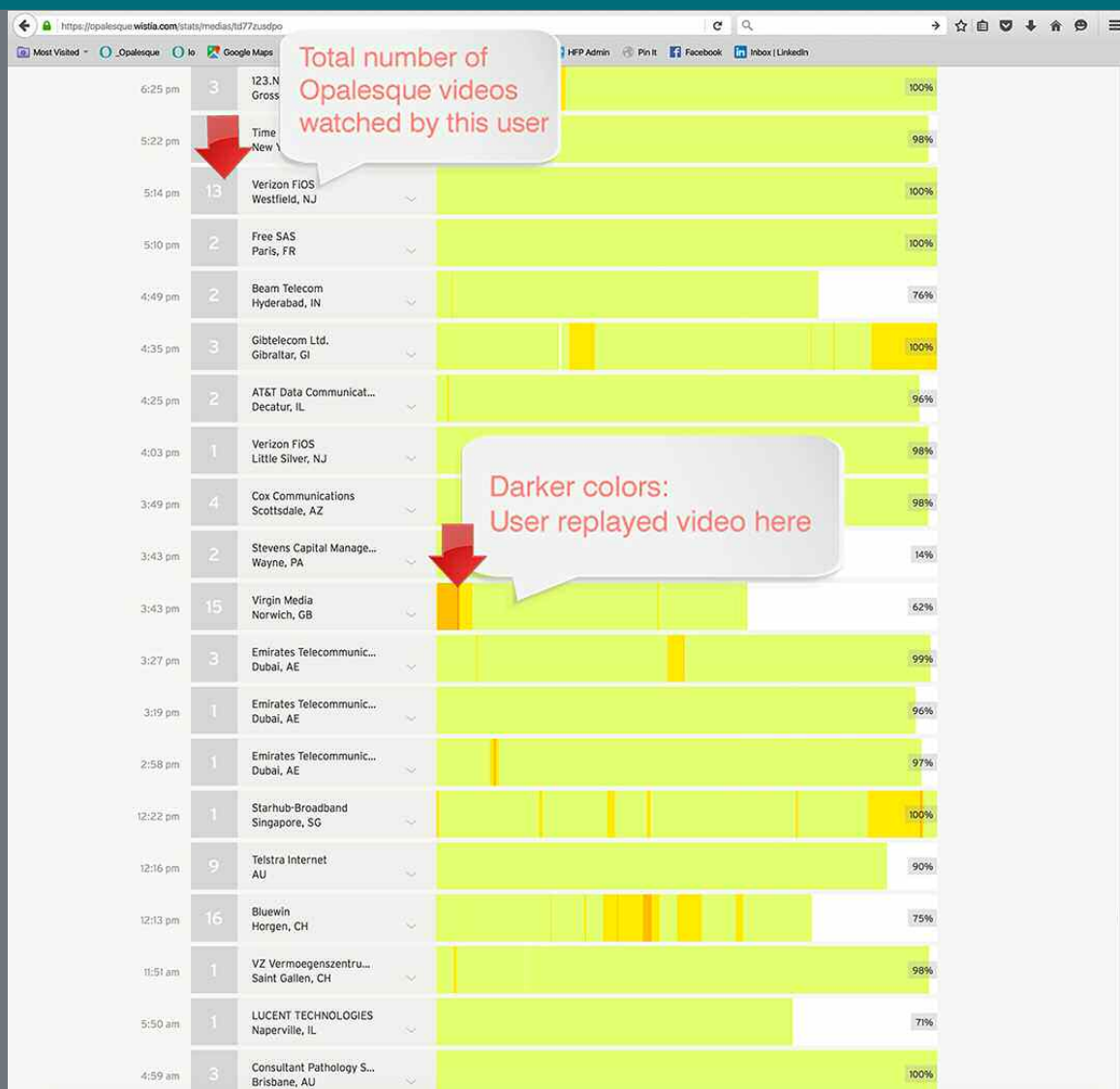
Opalesque has detailed viewer stats on 280+ videos since 2009. What's most interesting is that **video views do not drop significantly over time**, no matter how long the video has been online.

Taking Meetings over Christmas and while you're sleeping

Opalesque.TV videos are designed to simulate a first time meeting with a prospective investor. Many of these allocators will watch a video when they see that there's one available on the manager they are researching (like the viewers of manager A). All 280+ managers who have produced a custom Opalesque.TV video can therefore actually make business (or "have a meeting") while sleeping. Or when it's Christmas.

This video was watched 104 times over the 2016 Christmas holidays:
<http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/1>

Take a look at the next graphic, especially at the hours (which are Central European), the locations, and the completion (how many viewers watched the video until the end):



We therefore believe there are real **opportunity costs** for managers who do not use videos to explain what they do.

Save up to 50% in travel costs by making your first meeting the second one

Have you ever spent time and money to take a trip to present your fund, only to hear, *"Thank you for coming to our office, and please keep sending me your reports ..."*?

What if you had known before that the investor is looking for something else?

By sending their video to prospects **before the meeting**, the manager wins twice. Should the investor be looking for something else, the manager can focus his efforts on those investors who watched the video **and liked** what they saw.

In these cases, managers tell us that the first real meeting becomes more like a 2nd meeting (the 1st one being the video) as the groundwork has been laid and the meeting will be much more successful and achieve much more compared to a regular first meeting. By better **qualifying your leads**, you can basically halve your travel budget and raise more assets quicker.

Compliant

- Opalesque.TV videos are produced to comply with your regulatory requirements
- Allow for true reverse solicitation

You're in control

When you're doing a custom Opalesque.TV video, you have full control about any aspect of your message. This is not a given in any other regular media coverage.

A manager portrait on Opalesque.TV is generally designed to simulate a first time meeting with a prospective investor, meaning that questions like the following will be discussed:

- Please introduce yourself and your firm
- What is special about your strategy?
- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

Working with a trusted partner

Over 1.2 million people have watched one or more Opalesque.TV videos, which means that the people you may be targeting will already be familiar with Opalesque.TV videos.

Managers like **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Elena Ambrosiadou, Anthony Scaramucci**, and many others have done Opalesque videos, as well as institutions like **Morgan Stanley, State Street Global Advisors, M&G Investments**.

Broad distribution

You can either produce a private video with us, which will only be hosted on the non-public part of your website, or we can offer you the broadest possible multi-channel distribution on Opalesque.TV and our partners like Reuters and other leading platforms. Contact us to discuss your custom distribution package.

Managers have **quadrupled assets** thanks to our video (\$700m to \$2.4bn in 1 year) and also received a book contract or **invitation to speak at the World Economic Forum or at TED** through our video:

- View count: Over 1.2 million views (hundreds of thousands of people)
- Thousands of investors will view your presentations
- Longterm effect: views do not drop significantly over time
- Without investing a single additional minute of your time – time required to record a video is approximately 90 minutes.

Costs

For a 10 minute video the all-inclusive package price is US\$4000 which includes: travel (Europe and NY tristate), full production at your office, multiple edits (cuts), provision of the final video file, and a global, multi channel distribution package. A 15 minute video is \$5000, so \$1000 will be billed for each additional 5 minute segment above 10 minutes. The client determines the final length of the video.

Links

Opalesque.TV video which got 104 views over 2016 Christmas:

<http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/>

Opalesque.TV videos sorted by number of views:

<http://www.opalesque.tv/most-viewed-hedge-fund-videos/>

Opalesque.TV videos sorted by number of social media shares:

<http://www.opalesque.tv/most-shared-hedge-fund-videos/>

Contact

Matthias Knab
Founder
Opalesque Ltd.
www.opalesque.com
Email: knab@opalesque.com
Tel: +49-89-2351-3055
Mobile: +49-170-189-0077

