



# Opalesque Round Table Series '09

# LONDON

# Editors' Note

Dear Reader,

When we did our first Opalesque U.K. Roundtable in June of 2008, the hedge fund industry still had the worst storm ahead. Now, one year after the unforgettable events of Q4 2008, the industry is still restructuring, but the survivors move strongly forward.

In this new Opalesque Roundtable, you will get the “inside track” on:

- How did some of the largest UK hedge fund operations fare during 2008?
- What changes were implemented thereafter?
- What are the opportunities hedge funds and their investors are focusing on right now?
- How to set up and use managed accounts?
- Will investors embrace UCITS 3 funds which are increasingly launched by alternative asset management firms?
- The Pros and Cons of being a public hedge fund manager
- How do U.K.-based managers react to the AIFM Directive?
- With personal income taxes reaching 50%, who will be migrating to Switzerland?

The 2009 Opalesque U.K. Roundtable was sponsored by Newedge Prime Brokerage Group ([www.newedgegroup.com](http://www.newedgegroup.com)) and took place at their London office on September 8th with:

1. Anthony Ward, Co-Founder of Armajaro and non-executive Chairman of [Armajaro Trading Limited](#)
2. Aref Karim, Founder, [Quality Capital Management](#)
3. Douglas Shaw, Managing Director Proprietary Alpha Strategies, [BlackRock](#)
4. Duncan Crawford, Head of Capital Introductions, Prime Brokerage Group, [Newedge Group](#)
5. Emmanuel Roman, Co-Chief Executive Officer, [GLG Partners](#)
6. Giles White, Partner and CIO, [MaxCap Partners](#)
7. Lawrence Staden, Founder, [GLC](#)
8. Max Gottschalk, Senior Managing Director, [Gottex](#)
9. Oliver Dobbs, CIO of Portfolio Management, [CQS](#)

Enjoy “listening in” to our 2009 U.K. Roundtable!

Matthias Knab  
Director Opalesque Ltd.  
[knab@opalesque.com](mailto:knab@opalesque.com)

# Participant Profiles



## STANDING (LEFT TO RIGHT)

Matthias Knab, Lawrence Staden, Giles White, Emmanuel Roman, Oliver Dobbs and Duncan Crawford

## SITTING (LEFT TO RIGHT)

Max Gottschalk, Anthony Ward, Aref Karim and Douglas Shaw

# Introduction

## **Duncan Crawford**

Newedge Group

I am Head of Capital Introductions at the Newedge Group. We are a full-service hedge fund prime broker, covering all strategies with a special focus on derivative-based strategies, such as managed futures, global macro, commodity and volatility trading strategies.

Newedge stands out as a prime broker in being an independent institution, but wholly owned by two major deposit-taking French banks, each with strong credit ratings. We offer an unbundled agency-based service, where re-hypothecation of assets is not an integral part of our model, with no prop-trading activities within the group.

Also of relevance, currently, is our focus on servicing managed accounts for investors, which comprises a major part of our business and revenue. As I said, I run the capital introductions business and spend my time bringing together investors and managers.

## **Anthony Ward**

Armajaro

I'm Anthony Ward from Armajaro. Armajaro is a firm that started in 1998 trading physical commodities and supplies all of the chocolate brands you eat in the world and most of the coffee brands that you eat and drink in the world.

We got into asset management in 2003 and have one fund called Armajaro Commodity Fund, which is quite well known, and now we have two others. One is called CC+, which specializes in coffee and cocoa, and one called CZAR+, which is a sugar and ethanol fund.

We have recently launched an emerging market fund. Emerging markets generally have quite a strong correlation with commodities. We feel our expertise goes across both of those two areas. We will also launch a system fund in December, which has been running live within our Armajaro Commodity Fund for the last three years and has a very good rate of returns.

I have one partner in the firm and we have many smaller owners. Pretty much every single person who works in our company becomes a co-owner after two years.

## **Douglas Shaw**

Blackrock

My name is Douglas Shaw, and I help manage the single-strategy hedge fund business at Blackrock. We have sixteen funds, nine managed out of London and seven are managed out of New York in long/short equity, resources-based equity, fixed-income, and global macro strategies. In total, our firm employs 5,000 people. Today we are undergoing our merger with Barclays Global Investors who themselves have a set of quantitative hedge funds - this will make us one of the largest providers of single-strategy hedge funds.

## **Aref Karim**

Quality Capital Management

My name is Aref Karim, I am the CEO and CIO of Quality Capital Management. The firm was founded in 1995 and we have been operating for about 13 years. We are a hedge fund in the managed futures space, what would be termed in the industry as CTA.

We currently manage just under \$700 million across three products; the flagship is the Global Diversified Program, which trades financial as well as commodity futures in long-short strategies seeking absolute returns. We have two commodity-exclusive products. They are the Global Natural Resources Program and a long-only Enhanced Commodity Beta Program.



Our strategies are best described as systematic macro in the sense that we take long-term views on the markets that are then sliced and diced systematically to take advantage of opportunities in no fixed time frame. They are driven algorithmically using proprietary models we have developed focusing especially on an innovative dynamic risk allocation tool we call the ARA.

**Oliver Dobbs**  
CQS

I am Oliver Dobbs, CIO Portfolio Management at CQS. We are a global alternative asset management company specializing in convertible bonds, credit, and asset-backed securities. We manage a family of hedge funds and long only products. We have about US\$6 billion under management, with regulated offices in London, NY and Hong Kong.

**Emmanuel Roman**  
GLG Partners

I am Emmanuel Roman. I'm the Co-CEO of GLG Partners. We are a New York Stock Exchange listed public company and manage \$19 billion in equity, credit, emerging market, and macro. We are based in New York, London, and Beijing.

**Max Gottschalk**  
Gottex Fund Management

I am Max Gottschalk, co-founder and head of Europe of Gottex Fund Management, a global alternative investment group listed on the Swiss Stock Exchange. We offer our clients a number of fund of hedge funds products, single hedge funds and bespoke products with a focus in relative value, arbitrage and credit space. Our firm manages \$8.2 billion of assets and has 120 employees worldwide.

**Giles White**  
MaxCap Partners

I am Giles White. Nearly three years ago, I co-founded MaxCap Partners. We are a London based multi-family office servicing ultra high net worth families and individuals in the UK and elsewhere. We primarily aim to offer aligned investment management for our clients with co-investment and emphasis on performance. We are multi-asset managers looking at the risk adjusted returns rather than static asset allocations. We do this through offering highly bespoke and discretionary advisory asset management to clients. We manage a high proportion of wealth that was created by entrepreneurs, and we try and manage that with the same care and dedication that characterized its creation.

**Lawrence Staden**  
GLC

I am Lawrence Staden, Managing Director of GLC, a London-based hedge fund manager. We have been going for 17 years and are based in Soho in the old Peloton offices, which is colourful! We run multi-strategy and single-strategy funds, including macro, CTA and statistical arbitrage strategies. We currently have just over US\$1 billion under management, although I'll be the first to admit there has been a certain amount of volatility around that number over the past 12 months.

**Can you tell us what sort of opportunities are you pursuing at the moment? Are some of you launching new products?**

**Douglas Shaw**

At the moment, our emphasis is not on necessarily launching new things, but on earning back money that we lost for our clients last year. This is an important point, I believe. Secondly, we are undergoing a very large merger, which is an important feat to accomplish as well.

However, we have launched two new strategies, which we won't market until next year. These funds are US equity long/short, which is admittedly a very efficient marketplace - maybe the world doesn't need another US equity long/short manager, but we think we have good people in that space with skill, talent and perseverance. If all goes well, we will offer those funds to our clients next year.

**You are mentioning a good point - making money back for your clients. In which areas are you doing this, and how are you succeeding?**

**Douglas Shaw**

Long/short equity did really well last year, and continues to perform well this year. We had a very difficult time in our fixed-income funds. In 2008 we got fairly early back into long credit, which caused losses for our clients. While we were down significantly last year, much to our consolation, the better news is that we are now reaching high watermarks for those clients in fixed-income strategies who stayed with us.

We find that very encouraging, but of course not all clients did stay with us. There was a big liquidity demand and our assets shrank considerably, even in funds that made 20% in 2008. Some clients wanted their money back - it was their money, not our money; we could have gated according to our prospectuses, but chose not to because we had the liquidity at that time. We hope the clients will remember and look at us perhaps more favorably than maybe they would look at other managers out there...

**Aref Karim**

As a systematic manager we do not take a view of the markets at all. Our models do that. We thrive on volatility as directional players; and we trade relative convexity in markets looking particularly for moves that show accelerated momentum. And we saw a lot of that during 2008, which we were able to take good advantage of.

It was interesting how our proprietary dynamic risk allocation tool ARA moved weights around opportunistically through various sectors to contribute strongly to the overall performance. We had a robust 2008 in our flagship GDP - up 60%. The performance was primarily driven in the first half by participating in the bull market in commodities - short the dollar and long commodities - and short equities.

Then came the violent systemic turmoil of the third-quarter, which set back most CTA strategies quite significantly. We had draw-downs due to the severity of the V-shape reversal in most markets at the same time. But interestingly the focus switched to some of the financial markets from commodities. The concerted global rescue plans led to sharp drop in interest rates. Bonds and gold soared as safe haven plays at the time of the crisis. These provided tremendous opportunities for us. We had a very strong last quarter on the back of profitable positions in most financial markets where we were also engaged on the currency side.

2009 has been a challenging year thus far mainly because of a lack of directional volatility in the markets. There is always a bit of time required for switching regimes in most systematic strategies. Position changes tend to lag a bit, particularly if you are shifting directions in markets that have moved in a direction strongly. So far, 2009 has been tricky, we have got whipped quite a bit. We

are down about 11% at end August on the flagship product. But we are still annualizing some 25% over the last five years.

Where are we going from here? Currently, our positions seem to be favoring a recovery play, in the sense we are long equity markets and long fixed-income where we have been for a considerable period of time. We were long short-term interest rates, of course. But we swiftly arrived into a zero rate environment with all the quantitative easing, so there was no further opportunity to make money there

Convexity turned dull in most of the interest rate positions causing our models to reduce positions aggressively but the commodity play (short dollar, long commodities) became interesting once again. Metals have been very good for us, sugar has been great - we have been able to participate relatively well in most of the moves in the very recent months.

We do not know at this point whether this recovery morphs into a W-shape. However, the advantage with a systematic strategy is that we do not have to particularly worry about what environment we are in, so long as there are some directional moves.

### **Oliver Dobbs**

Our primary focus is on generating returns for investors and so far this year most of our hedge funds' performances have been pretty satisfactory, ranging between around 20% and 40%.

In our approach, however, we are a bit different. Our investment process is underpinned by bottom-up analysis and individual security selection across the different products we manage. From this "idiosyncratic" perspective, it's really very interesting at the moment and we are finding significant opportunity.

It is difficult to have a strong view on the world economic environment we are in or the macro moves in the market place, other than that we are generally taking a somewhat conservative approach. We have, however, seen a lot of corporations looking for new capital and prepared to offer much better terms than has been the case for many, many years. This makes it very interesting and we think it is a great time for investment.

We also have much less competition. A lot of the competition has left the market, not only some of our brethren in the hedge fund community, but also from the sell side where a lot of our competition has traditionally come from - namely proprietary trading desks - and they seem to be much less focused on this area.

In addition, financing terms have dramatically improved over the last six-to-nine months, and that is encouraging to see. From a valuation perspective, and with the trend of new products that come from corporates, wherever the market goes in the next few months, we see a lot of opportunity.

### **Emmanuel Roman**

Let us go back for a moment into 2008: the months of September, October and November were the worst markets in terms of pure liquidation that I have experienced in 25 years. I cannot stress enough how brutal the moves were and how much pain there was in the market; essentially every single bank and every single money manager was selling at the same time. Needless to say, those months had the worst returns in terms of risk adjusted return, with the possible exception of CTA and macro, which actually turned out to have the right bet on.

Vice versa, you have witnessed so far this year the best returns on a risk-adjusted basis for all the strategies. Generally our convertible strategies are up over 50%, our long/short are up between 17% and 30% - with very low leverage - and everything seems to work. I think we have seen a situation that we really haven't witnessed before, with the possible exception of the LTCM crisis in 1998. Back then you had significant abnormal negative returns over the last couple of months of the year and really tremendous returns for the first six months of 1999.

As our friends from GLC just said, there were heavy redemptions and, obviously, part of this bounce has been missed by investors who basically got very, very scared that there would be no banking system at the end of 2008 and therefore got into cash. This, by the way, also explains why

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we believe the market is going to drift higher for the next few months, simply because there is a lot of cash lying around. Some people are not invested, and when rates are somewhere between a quarter of a percent and half a percent, risky assets all of a sudden look better than earning nothing.

### Max Gottschalk

After the deleveraging of 2008, we have also benefited in the first half of 2009 from the strong recovery across the relative value and beta-related strategies. Beyond this recent recovery, spreads in the strategies we invest in are still extremely healthy, which we believe should translate into good risk-adjusted return, not only for the remainder of this year, but for the foreseeable 12, 18 months as capital and leverage gradually comes back to our industry.

A key trend developing in our industry is the increased demand for managed accounts. Many hedge fund investors who were commingled with other investors and experienced restricted liquidity on their investments last year, as managers imposed gates, suspensions and side pockets, are now seeking greater transparency, control and liquidity via the use of managed accounts. We are, for example, seeking to have in excess of 25% of our portfolio in managed accounts by next year. In order to achieve our objective, we have created our own managed account platform.

A meaningful number of very large institutions and fund of hedge fund groups are also in the process of moving their hedge fund investments into managed accounts. Some are doing it by themselves; however, the majority is looking at outsourcing such function. As we have developed our own managed account platform, we are currently having number discussions with these groups of investors.

Managed accounts are certainly a topic of discussion right now which has been gathering a lot of momentum. We won mandates this year because of our platform and a number of investors who are seeking to gain or increase their exposure to hedge funds that way in order to achieve greater transparency and control over their investments. We believe that the industry will move much more aggressively into the managed account model as its benefits are better understood.

Linked to this development is that many large hedge fund allocators have found that their risk management tools were unsuitable to truly understand the risk they were exposed to. Although many hedge funds provide their investors with some level of transparency, it was often not sufficient to allow investors to understand their risks. Investors are increasingly seeking tools and



services to enable them to better understand the risks in their alternative portfolios. This is part of Gottex's offering that is seeing significant increase in demand as investors seek to benefit from the resources and systems that we have developed over the past decade.

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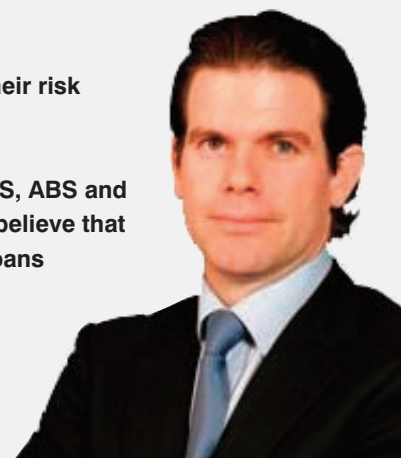
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**We see today the best opportunities in the credit space; distressed, direct lending, MBS, ABS and to a certain extent convertible bonds offer some of the best risk adjusted returns. We believe that with the lack of capital in the U.S. lending market today, spreads on newly originated loans can be in excess of 900bps over Libor for a period of up to 5 years. A well constructed portfolio of these loans should give investors a great return and a fantastic hedge against inflation.**

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#### **Giles White**

We had a reasonably good 2008 - I think one of the luxuries of being a step back, that is by running multi-asset money in a family office context, is that you are not confined to single strategies. In some areas we invest directly ourselves and in others we use other managers. Our approach is to stand on the shoulders of giants where possible.

We found ourselves in a pretty robust spot as a consequence of our macro view, which was negative last year, negative for Q1 of 09 and which we have since then gradually softened to being defensive or cautious.

We were able to move reasonably quickly just ahead of the tide of drying liquidity and systemic problems in the market. However, we can't switch all our assets into an outright short, because our asset base can comprise the total of an individual or the wealth of different entities, and to take someone into an aggregate short position would be quite aggressive, no matter how bearish you are as a manager.

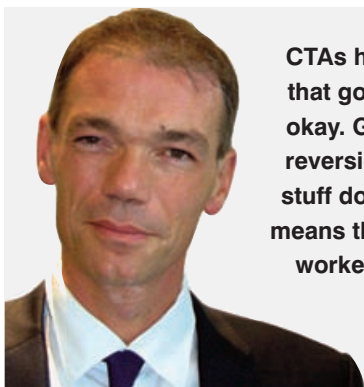
When I look at 2009, we have really seen the abatement of those types of systemic risks against which the only real defense is making sure to use as little leverage as possible, and be as much in

cash and short-dated sovereign as one can.

Generally, we are cautious by nature and intend to achieve positive returns across relatively short time periods. At this time, innovation is for us to adopt our asset allocation to where we think the deck is stacked best in our favor in terms of the risk and reward. We look at a lot of products that single managers and others in the market offer. There are a lot of interesting things going on; however some of those are transient opportunities being launched as funds simply at the bottom of the V and which follow a relatively obvious and unimaginative approach.

On the other side of the spectrum, you see a structural move towards managed accounts and a more open and transparent method of management on behalf of hedge fund managers. These issues are likely a long-term development, particularly in an environment where regulators and the powers in the market seem to prefer such an approach as opposed vehicles where managers can do whatever they want without any sort of reporting requirements to anyone other than the shareholders. Whether that's good or bad I couldn't pass judgment, but I believe that is the direction a lot of investors' regulatory authorities would like the industry to go.

We are cautiously optimistic about the current opportunities. We are not massively directional, but are fortunate to have money with some extraordinarily talented managers. There is always something trying to destroy the world, it's just a question of making sure that you manage the downside so that nothing can give you a serious injury whilst retaining as much optionality to the upside as possible.



**CTAs have had a rough time so far this year and as a result most CTAs have been down. I think that going forward CTAs - even the old fashioned trend-following CTA products – are going to do okay. Generally, mean reversion makes things difficult for a trend-following CTA. A lot of mean reversion movements are caused by proprietary traders who get in, push things up, then push stuff down again as they get stopped-out later... With fewer proprietary traders active at banks, it means there should be less of those rapid mean reversions. Now, so far this year that hasn't worked, but I would say over the next few years most trend-following CTAs will make more money than they would have done if the banking collapse had not happened.**

**Lawrence Staden**

#### **Lawrence Staden**

This has been a good environment for trading strategies, so as a multi-strategy fund we find ourselves in the right place at the right time; we were up over 25% last year. This year hasn't been as easy, but we are already up by double digits for the year-to-date. Generally, this is a good environment for all strategies. There is less competition as we have said, and this usually means more alpha. There is less competition in the markets because the banks have been constrained in what they can do and because the amount of money any of us has under management has come down - I wouldn't think that anybody at this Roundtable has actually got more money now than they started off with last year.

Statistical arbitrage is one of the strategies we deploy - essentially providing liquidity to European equity markets - where the opportunity stands out to a certain extent. When the markets' liquidity dries up, you get paid rather more for providing liquidity as opposed to the times when 101 statistical arbitrage funds were queuing up to do the same trade. As a result, this strategy is serving us well at the moment, and I think it will probably carry on working until at some point sufficient liquidity floods back into the market.

The other thing I want to highlight relates to CTAs. CTAs have had a rough time so far this year and as a result most CTAs have been down. I think that going forward, CTAs - even the old fashioned trend-following CTA products – are going to do okay. Generally, mean reversion makes things difficult for a trend-following CTA. A lot of mean reversion movements are caused by proprietary traders who get in, push things up, then push stuff down again as they get stopped-out later... With fewer proprietary traders active at banks, it means there should be less of those rapid

mean reversions. Now, so far this year that hasn't worked, but I would say over the next few years most trend-following CTAs will make more money than they would have done if the banking collapse had not happened.

We launched just one new product in 2008, which was a subset of our multi-strategy fund. We started trading emerging market currencies and achieved a positive result last year. The program has obviously done very well this year.



**From what I understand, the Gottex platform is mirroring the liquidity of the underlying funds, thereby standing by the liquidity of the underlying assets, but still offering the advantage of controlling the assets. It is possible that less liquid strategies may see less inflows because of this demand for liquidity.**

**The other development we observe is the growing interest in UCIT3s, which I'm sure everyone at this Roundtable has looked at. There are relatively few funds available currently, about 50 as I understand. There are, however, certainly many in the pipeline. We are working with numerous managers to open up UCIT3s funds.**

**Duncan Crawford**

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I'd like to come back briefly to managed accounts. Aside from investors having direct ownership of the assets traded, the demand for liquidity is driving many of the developments here. Investors were hurt badly by being gated last year, thus a major driver of the interest in managed accounts is the demand for liquidity. A key issue with effective use of managed accounts, however, is the liquidity of the instruments traded in the program. Strategies such as managed futures, many macro funds and liquid equity long/short funds lend themselves very well to the use of managed accounts. Strategies which are engaged in trading instruments with relatively poor underlying liquidity can cause major issues for the fund manager.

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**Douglas Shaw**

Who do you think will be buying these UCIT3s products?

**Duncan Crawford**

That is a very good question. I know that in the past, some big houses have tried to sell UCIT3s for all of their products and raised very little assets. However in this new environment, there appears to be considerable interest. I have seen pension funds that said they will not invest in offshore funds. They are interested in the concept of managed accounts, but they are probably unwilling to have their own managed accounts. They are typically looking at managed account platforms or UCIT3s structures. These could fit pension funds very well, and they certainly may also suit private banks or IFAs when marketing to retail.

**Anthony Ward**

Our great surprise last year was the amount of outflows from our funds, despite the fact all our funds were up - this was frustrating. We could have raised gates but we did not use them. We took the view that not having gates means you start to get the money back, and indeed we started to get quite a lot of money back, but only in the last two months. However the momentum is there and quite a lot more assets seem to be coming between now and the end of the year.

Certainly everything we discussed so far about managed accounts has become a mainstream agenda, particularly for those investors who were invested in Madoff. In one of our funds we take physical delivery, so it gets tricky or a bit more complicated to deal with in managed accounts. You need quite sophisticated managed account managers, but it is possible to do.

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**Anthony Ward**



Looking at the opportunities within commodities, the trend has been quite straightforward with sugar, for example. We run a sugar fund that has done pretty well. With metals, I am not sure everybody got it right. There are a number of confusing views on the world economy, and probably more on the negative side than the positive side. The stimulus from the governments has been huge, and the big question is what will happen when that stops. And the great debate is do they want to have inflation anyway, because it solves the problem; in which case they continue to stimulate the economies to get inflation or will they put on the brakes? I don't know anyone who knows the answer on that. I am a bit negative and think that I will probably try and put the brakes on too soon....

**Emmanuel Roman**

What do you see in terms of demand in metals from China?

**Anthony Ward**

I think what's going on in China is called converting treasuries to commodities. When I was in Shanghai, which wasn't so long ago, I saw a lot of empty buildings. In Beijing, there were even more empty buildings. They keep building them - it looks nice - but there's no one in them. I believe China is the biggest property bubble that no one wants to talk about. Owning commodities rather than U.S. treasuries is probably not a bad idea, particularly at 0.5% interest rates.

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**So the Chinese are going to need the commodities, but do they need them now? I am not sure at this point. Maybe food is more interesting. We have had absolutely remarkable weather in the US this year, which has put downward pressure on food. Overall, food is probably the big thing for the next ten years because the population is still growing and generally developing countries are getting richer and changing their eating habits.**

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One of the most interesting statistics that I will give you refers to cocoa: Indonesia's chocolate demand is up 20% this year, and that is because the price of petrol is down 40% compared to

February 2008. Demand in Eastern Europe is 20% down on chocolate, because they have no money and needed to borrow in their own currencies.

And we could do the same calculations for coffee. We are facing a very confused state of the fundamentals. These are just some examples, but it becomes obvious that certain products don't correlate how you would expect.

We started an emerging markets fund about one month ago, and it was not easy to raise assets for it. We believe this is because people were badly hurt at the end of last year, some of them were locked or gated. We launched the fund with a very small amount, I believe it was \$35 million mainly from the owners. In our view, emerging markets are well correlated with our commodity expertise. Our commodity funds are all doing quite well this year, apart from cocoa/coffee which is up, but not as much as we expected.

Going forward, we see a general growth in commodities, it is a good area to be in. One concern at the moment is related to the massive reduction in open interest in all commodities and the heightened volatility which incurs without directional changes. We try to manage this environment by putting on smaller positions for the same risk.

**Matthias Knab**

**Let's come back briefly to the managed accounts discussion. Is it really the panacea or is it hype? To what extent are managed accounts factually used within your companies, what is the real use?**

**Lawrence Staden**

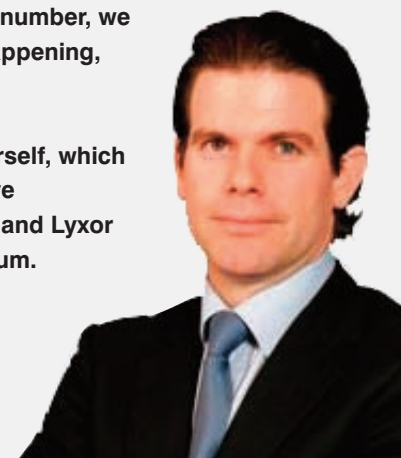
About half of our assets are in managed accounts. A lot of our business is CTA business, so this number is not surprising. We have certainly experienced a significant demand for managed accounts on the back of the Madoff fraud. In some cases, investors have converted from fund vehicles to managed accounts. For GLC, there is little difference if an investor is in a fund or in a managed account; we run both in a similar fashion as all our instruments are exchange traded and liquid.

I am very impressed with the idea Anthony mentioned in relation to physical delivery in a managed account, this sounds to be above and beyond the call of duty. In our case, we buy and sell futures, foreign exchange etc., so this is very easy for us to do in a managed account platform and we are quite happy to do so.

**While a lot has been said about managed accounts and not so much has been done, so far the trend is clear. When we speak to our peers, fund of hedge fund managers, every single one of them is looking to move between 30-50% of their assets into managed accounts. Even if it will be only half that number, we are talking about more than \$150-\$200bn of assets being managed that way. This is happening, it's not hype.**

**The choices are so far are still somewhat limited - as investor, you can either do it yourself, which can be quite cumbersome, or use managed account platforms. A number of banks have successfully launched such platforms in the past few years. Deutsche Bank, Goldman and Lyxor are just a few of the bank owned platforms and these initiatives are gathering momentum. Bank platforms are expensive and can at times be conflicted with their own internal businesses and investors should review each platform carefully before committing to them.**

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is looking to move between 30-50% of their assets into managed accounts. Even if it will be only half that number, we are talking about more than \$150-\$200bn of assets being managed that way. This is happening, it's not hype. Despite hedge fund managers receiving more requests to set up managed accounts, undoubtedly the majority of hedge fund assets will remain commingled.

Many investors do not have the required assets or skill set for a full managed account program, but by contrast the larger, more sophisticated investors are becoming far more hands-on with respect to their hedge fund investments. They require the additional transparency, risk reporting and the autonomy to be able to hire and fire their managers at will. Although managed accounts provide clear benefits they also have some drawbacks such as additional costs and potential tracking errors but in my opinion the benefits far outweigh the negatives.

The choices are so far are still somewhat limited – as investor, you can either do it yourself, which can be quite cumbersome, or use managed account platforms. A number of banks have successfully launched such platforms in the past few years. Deutsche Bank, Goldman and Lyxor are just a few of the bank owned platforms and these initiatives are gathering momentum. Bank platforms are expensive and can at times be conflicted with their own internal businesses and investors should review each platform carefully before committing to them. We reviewed these platforms in detail and concluded that we would be best served by developing our own platform.

#### Aref Karim

I want to reflect back a little, wearing my former hat with a sovereign wealth fund, Abu Dhabi Investment Authority, which was probably one of the early large-scale investors coming into managed futures space. I was involved with setting the investment policies, guidelines, etc for its alternative investment portfolio.

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**One of the primary constraints that we set on this CTA portfolio was that every account had to be a managed account. We would simply not get involved in funds. This shows the level of importance and comfort that large institutions get from having transparency and the other advantages that go with managed accounts.**

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The big issue is infrastructure. To run a whole lot of managed accounts in the form of a multi-manager portfolio becomes a major problem for an institution if it is not geared up for it infrastructurally. This is solved with the much improved technology and applications available these days. There are a number of accounting systems available which are able to do pretty much everything including outputting top-level performance and risk reports. In addition you have many commercial managed account platforms.

The Madoff fraud and gates put up by numerous funds in 2008 effectively 'freezing' investor assets must surely be making managed accounts almost a necessary option for investors. Personally, I don't think managed accounts are hype, I think they will be sought after by increasingly more investors and form a significant part of the landscape going forward.

#### Douglas Shaw

I just wonder whether investors are drawing the wrong conclusions from Madoff.

I just have in front of me the 22-page executive SEC report on their Madoff investigation (it is on their website). This document makes the most toe-curlingly, awful reading; a litany of missed opportunities by regulators to have caught the fellow from 1992; of letters written but not being sent, of intimidation and poor follow up.

The more they kept missing him, the more he was able to explain to investors that the SEC had indeed been in and he had survived all previous examinations. Every missed opportunity was used by him to be a further commendation of his own excellence. I would encourage people to read this report, because I think he was offering managed accounts rather than hedge funds themselves. In any case, the regulator had more than enough powers to end his fraud early enough and they made insufficient use of those powers.

At Blackrock, we don't actually have that many discussions with end investors about managed accounts. We do have some managed accounts in some special instances - for pension-fund investors particularly when they have invested early with us in a strategy. Generally, when it comes to platforms, I was pretty squeamish about announcing to my investors in the fund that the strategy is now available with easier liquidity at a different price compared to the fund. My interest leans more towards treating all clients and their strategy fairly than just growing AUM through managed accounts.

### Duncan Crawford

The situation with Bernard Madoff was very different from real managed account setups. Madoff ran managed accounts within his own investment vehicles. No one actually owned their own managed accounts, which Madoff traded on under a trading manager agreement.

### Giles White

Maybe I am cynical, but there are a number of people who were managing funds of hedge funds and managed to get into Madoff. In 2009, there are probably less such fund of funds managers around than there were last year.

If you are sat down with your investor looking at the horrific year last year, they will ask: "How the hell did you bonfire 30% of our money in an absolute return product?" And the guy says, "It's not my fault, it's the liquidity on the underlying managers..." - and in this context introducing managed accounts represents a tangible step that can be presented to investors as a cure-all. However, it doesn't relieve investors of the obligation of understanding the liquidity of the underlying assets in anyway.

So I don't think managed accounts take you a long way further forward in terms of avoiding a repeat of the problems of 2008. However, there are two things that are beneficial. One, from a U.K. perspective, there are certain significant tax advantages that can accrue through using a managed account platform that doesn't attach to an offshore fund.

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**Secondly, managed accounts can protect you against a form of misunderstanding or ignorance on the part of your fellow investors. A lot of problems were caused by funds offering greater liquidity than the underlying, which is an obvious point. But investors with different investment timeframes and pain thresholds were co-mingled in collective vehicles. Suddenly you find yourself dependent not on the manager, but on the co-investors - it is to your detriment if those alongside you want to come out.**

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and pain thresholds were co-mingled in collective vehicles. Suddenly you find yourself dependent not on the manager, but on the co-investors – it is to your detriment if those alongside you want to come out.

Being able to compartmentalize your risk and make sure that you are not dependent on others that do not really understand the liquidity of the strategy is a real benefit to investors. But I don't think managed accounts are a magic bullet: there is still no substitute for understanding what managers are doing and what the actual liquidity, risks and exposures look like.

**People associate managed accounts with greater liquidity, and that's not necessarily the case. Managers on our platform, for example, will not be providing weekly liquidity or even bimonthly liquidity. The liquidity of each fund should match the liquidity of the underlying investments. If you do not, you set yourself up for problems at some point down the road. What a managed account achieves is giving investors far more control as to how that liquidity is actually provided to them and is not subject to gating, suspension or side pockets. If the investor wants to sell the investment, then it becomes its decision to do so together with the manager.**

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**Aref Karim**

I think there is an important point we are missing here. And that is the question of transference of ownership. In a managed account the investor is still the sole owner of his assets and in the fund he is not – he is simply one of the shareholders.

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**Doug Shaw**

This is a very important restriction from a safety point of view for the customer needs.

**Lawrence Staden**

You can offer the same liquidity terms on a managed account as you do on a fund but, in extremis, an investor who owns the managed account can say to the manager: "You are not managing this anymore, I am getting out of my position." Managed accounts are much more appropriate for liquid strategies than for illiquid strategies, where such actions may be to the detriment of fund holders.

**Duncan Crawford**

I believe due to the increased use of managed accounts and the increased interest in onshore fund structures, offshore funds will be pressured into becoming much more investor-friendly vehicles. We are already seeing liquidity terms improving in some funds. Interestingly, if you look at the FCMIT French onshore futures funds, last year they typically did not have any redemptions, which the managers indicated to me was due to their daily liquidity terms. While some investors may have put in redemption notes for their monthly liquidity investments, they had the comfort that they could redeem tomorrow a daily liquidity investment, but never actually did redeem. It seems the comfort factor was enough. Liquidity is of course just one characteristic that can change for offshore funds.



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**Duncan Crawford**

**Emmanuel Roman**

In some of the European markets there were also some mistakes on the long only products. Some money market funds decided to increase their returns by purchasing CDO tranches. At the end of the day, these CDOs turned out to be very poor investments and some of the banks had to bail their clients out.

**Matthias Knab**

**Some of you here at this Roundtable have listed their asset management companies on a stock exchange. Could you share with us your experiences?**

**Emmanuel Roman**

I take the view that, if you are in the money management business the only thing which matters is your performance. If you perform well the money will come and your shareholders will be fine, whether you are public or private. If you don't perform, people will redeem and they will go away. All of us compete on performance. There are great money management firms which are public, BlackRock is one of them, and there are great firms which are private and function just as well.

We went public because we wanted to grow. We had a view that yes, there will be much more regulation and that it would be harder to do business going forward but that on the other side the U.S. listing and being SEC registered would help us in terms of growing our U.S. business. It was a very conscious move from our part.

We also wanted to have a currency to hire and retain people. The debate, in our case, was nothing different to the one we had when I was a partner at Goldman Sachs when we decided to go public. One way to look at this is by putting the two models side by side, looking at their pros and cons and picking the one which fits the best to your investment culture and the people you have on board in terms of what your strategic plans are.

The one thing you have to do when operating as a public firm is you need to run a best-of-breed public company. This means, for example, investing in proper legal counsel and a proper CFO for the public company. It costs quite a bit of money to have a public company but that's the price you pay to do it. GLG felt this was the right thing to do, and we are happy with it. If, and only if, you have the right structure it is actually a fairly straightforward thing to do.

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**Emmanuel Roman**



Though we had not planned on it, the added transparency and infrastructure has proven to be positive for both existing and potential clients.

**Matthias Knab**

**Did things work out for you as you had expected it or did you encounter some bounces along the way?**

**Emmanuel Roman**

We encountered 2008 and, as every CFO of a public company knows, when your stock price goes down quite a bit you never feel good about life! But that is the name of the game, and it would be no different from running a tech company or any other company.

**Max Gottschalk**

Emmanuel actually explained extremely well the reasons why companies go public. We are in a world where transparency becomes very important, and being a public and regulated company provides investor and shareholders with far greater transparency on the state of its underlying business, profitability, infrastructure, governance and compliance. It should give investors greater comfort on the firm.

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**Max Gottschalk**



**Matthias Knab**

**How is the U.K. developing as a location for your business? Are the coming tax increases an issue for you? Will you be moving to Switzerland, or are you going to put away with it? And then you will also have to deal with the coming E.U. regulation on alternative investment managers - are you preparing for the worst there?**

**Max Gottschalk**

We are seeing certainly a number of hedge funds now strongly considering moving to Switzerland.

**Doug Shaw**

How many?

**Max Gottschalk**

Quite a few. It certainly is a growing percentage of managers. Some London based firms have already made their move to Switzerland or other jurisdiction, and I would believe more firms will do so in the coming years. You have to keep in mind that a few years back these firms were probably not considering moving...

The second question hinted to regulations. It is clear that the European governments are taking rapid steps to implement some directives around the hedge fund industry. I have read the EU directive and have found it vague on a number of points, but we will get far more clarity as to what will be imposed upon our industry. The greatest concern at the moment lays around the various sales restriction that will be imposed on non-EU investment managers, however, I do expect them to be modified before they directive gets passed.

In my opinion, in the long run regulation will probably help our

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industry in providing increased comfort for investors wishing to invest in alternative funds. Furthermore, new onshore regulated products like UCIT3s and UCITS4 will be created to meet those requirements. Gottex is in fact actively looking at onshore structures that it may be able to market across Europe and the rest of the world.

#### **Oliver Dobbs**

Although we have had a presence in Geneva since 2004, I don't see us moving to Switzerland. I agree that there are concerns about taxation and regulations. But something else comes into play here that I call the Wimbledon effect. London attracts the best people to one of the best tournaments. Businesses come to London because they have the best courts, the best talent, the best infrastructure, and a great championship.

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**On the AIFM Directive, I think the recently appointed Rapporteur, John Paul Gauzes and the other people working on it are going to have to consider what they want to achieve. This process originally started with the assumption that maybe hedge funds were responsible for this systematic failure that led to the market upheaval in 2008. I would suggest that by now, almost everyone has moved away from that thinking. In fact, highly respected individuals like de la Rosiere and Lord Turner have also come to this conclusion.**

**Oliver Dobbs**

Now if the government starts altering that significantly - so suddenly there are worse schools for all our children, there are worse telephone lines, the infrastructure is significantly degraded and things like that - you could get to a migratory situation. However it seems to me it will be many years before the infrastructure at some of the other parts of Europe with possibly better taxation and regulatory environments will be able to compete more broadly.

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#### **Aref Karim**

In our case, we are location-agnostic - we could be anywhere, as long as we have good communication facilities and access to our computers and systems we need. This is a great advantage for systematic managers that we can be pretty much located anywhere. London is a great location in terms of its reputation as a premier world financial centre, its advantages in terms

**London is a great location in terms of its reputation as a premier world financial centre, its advantages in terms of the time zone, the political stability of the UK etc. It has all the right ingredients, which is why the financial markets have such a long history here.**

**It would be very unfortunate if we were being pushed out by unnecessarily high tax burden. At the end of the day, we have to look after our own interests and our investor interests, and if these are better served by having to make a move, we will have no choice. But we will try and resist this to the extent possible.**

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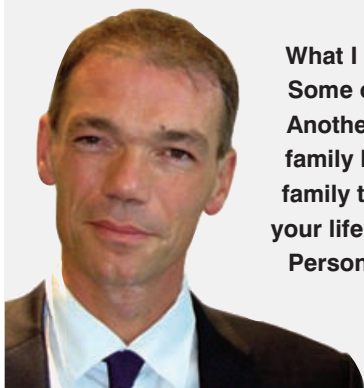
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**Lawrence Staden**

I suppose it's a cynical thing to say, but you aren't going to get too many hedge funds relocating to Switzerland when they are below their high watermark, so they have to work that one out first. But even when you get there, most people's assets under management are less than they were two years ago. That means moving to avoid 50% tax on a smaller amount, when you were not prepared to move before to avoid 40% on a larger amount. I don't think the argument that floods of hedge funds will decamp is hugely persuasive.

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**What I am saying here refers to this year, of course, and things might change in the future. Some of my friends live in tax havens - one lives in Bermuda, his wife grew up in Bermuda. Another one is in Cyprus; his wife is Greek; the last one is in the Channel Islands where his family has been living for a significant period. You can't in every case just effortlessly move your family to a tax haven. What does money give you if not the freedom to decide where you spend your life?**

**Personally, I'd say that even if they put the income tax to 100%, I would still be in London. I might cycle to the office a more scenic route, however.**

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Some of my friends live in tax havens - one lives in Bermuda, his wife grew up in Bermuda. Another one is in Cyprus; his wife is Greek; the last one is in the Channel Islands where his family has been living for about 700 years. You can't in every case just effortlessly move your family to a tax haven. What does money give you if not the freedom to decide where you spend your life?

**Max Gottschalk**

I was born and raised in Switzerland.

**Lawrence Staden**

Yes that is right, point in case: for you, Switzerland is home!

**Max Gottschalk**

Also, Switzerland is quite a different place compared to Guernsey, Jersey or the Isle of Man, in many respects...

**Lawrence Staden**

Personally, I'd say that even if they put the income tax to 100%, I would still be in London. I might cycle to the office a more scenic route, however.

**Douglas Shaw**

Furthermore, you have to take into account just how international London is.

**Lawrence Staden**

You are right - this question should really be directed to the expat community who have already shown that they are prepared to uproot their families and relocate somewhere else. I remember when I was working at Bankers Trust 25 years ago and I told my wife that we needed to move to

New York for six months to allow me to start getting into the political swing. She said, "Send me a post card", so I didn't go. These things are not that easy for some of us.

### Anthony Ward

I agree about what really is the difference between 40% and 50%, and that the only reason to be rich is to have choice, not to be dictated to.

I could personally live in Switzerland quite easily and have cousins who have lived there for a long time, however, there is a big difference related to trust in Switzerland now. Don't underestimate this whole UBS affair, you may want to question some of your own assumptions. If someone told you four years ago that the Swiss would hand out names to other governments, you would have just laughed at them.

So on the surface, Switzerland looks good. Moving would be easy for me, and especially the Geneva area looks perfect, but do I trust them that when the EU says "you are screwing us because you are taking all of our people", that they are not going to give in?

I think that the world is working very much as a group at the moment, and the next thing they are going to go after are tax arrangements. They will look first where have you hidden your money, and the next thing they check out is where do you live, etc. So I want to wait. I also think that the government may change by June next year. The Conservatives can't possibly say that they are going to look at this. If they get into problems maybe they will, because they don't want to see the hedge fund community leave either.

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Anthony Ward



### Lawrence Staden

My last point is that I don't think that paying 50% tax seems unreasonable. If you look at how the government spends the money, it is going into the health service, education, and bankers' bonuses. Who could possibly disagree with any of that?

### Duncan Crawford

As with most things in life, people have different views. A handful of our clients have moved to Switzerland and the Channel Islands, and others are talking about it. I am not sure, but possibly not everyone is happy to pay the 50%.

### Douglas Shaw

Let's come back for a moment to the question on regulations. At BlackRock, we do worry that the EU directive would oblige EU investors only to be able to hire EU managers of EU-domiciled funds which are lucky enough to find one of four EU credit institutions which act as prime brokers - our host Newedge is one of those - and hiring EU auditors, EU Fund Administrators - you see where I am getting at. We fear that such a policy risks to generate an inward looking, potentially atrophied fund management landscape, to the detriment of everyone.

Professional investors in the EU can currently choose from the best fund managers the world has had through offer. They may live or die by their own decisions. With this directive, they may end

up in a position where their choices are greatly restricted to EU based managers of EU based funds. This is a fundamental change for them, and not one that I believe is in our clients' interests.

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**The directive is here, it is not going to go away. It is a 57-article directive, and there are a thousand proposed amendments to it. The directive may be amended, and its final form is still not clear, but the substance will be unchanged. It's coming, you can't wish it away, because it won't go away, but you can attempt to modify it in some way.**

**Douglas Shaw**



**Max Gottschalk**

Do you actually think the directive will go through in its current form?

**Douglas Shaw**

Yes, absolutely. The directive is here, it is not going to go away. It is a 57-article directive, and there are a thousand proposed amendments to it. The directive may be amended, and its final form is still not clear, but the substance will be unchanged. It's coming, you can't wish it away, because it won't go away, but you can attempt to modify it in some way.

**Anthony Ward**

I think we in Britain, in particular, make the mistake of thinking that the Europeans come with these mad ideas and they will go away. Just look at the Euro - who would have foreseen what has happened to the Euro, and it's the world's great currency now. We can deny it, a single currency doesn't make any sense in economics, but they just don't care. These politicians form this huge block, and if they say it, they do it. And for the time being it sort of defies sometimes economics but, it seems to work.

**Duncan Crawford**

I am not sure we will see quite the draconian changes in regulations as were laid out in the original draft. AIMA is working extremely hard on trying to make it a sensible directive. And just this morning it was on the wire that eight Dutch pension funds with combined assets of \$450 billion Euros have sent a letter complaining about the directive. I would think they will be taken relatively seriously.

**Giles White**

I don't think that one would see any type of negative correlation between the stupidity of an idea and its likelihood of being implemented. There are many cases on both sides of the Atlantic where things that seem absurd at any other moment in time get passed quickly into law and remain stubbornly in force,

**It seems to me that the direction from which the winds blow is pretty plain.**

**The only saving grace is that the hedge fund industry at its best is highly motivated and intelligent, and is therefore as well-positioned as it can be to find ways to make the implementation bearable from an investor's point of view. Having reread the regulations in the last couple of days, they clearly are not grounded in the idea that individuals and individual investors bear responsibility for what they do with their money.**

**This comes back to one of the lessons that you can take away from 2008: ultimately, you have to make the effort to understand and be comfortable with what you are investing in. That is not ultimately an obligation that you can properly put on anybody else.**

**Giles White**



I agree that regulation is coming. There will be changes between the regulation being adopted and their implementation by member states and there will be a few years of uncertain interpretation before litigation finally settles things one way or another. But it seems to me that the direction from which the winds blow is pretty plain.

The only saving grace is that the hedge fund industry at its best is highly motivated and intelligent, and is therefore as well-positioned as it can be to find ways to make the implementation bearable from an investor's point of view. Having reread the regulations in the last couple of days, they clearly are not grounded in the idea that individuals and individual investors bear responsibility for what they do with their money.

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