OPALESQUE

Opalesque Round Table Series '10

FLORIDA

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Editors' Note

Dear Reader,
Florida's geographical proximity to South America and the Caribbean has made the state one of the most important gateways into these regions. Other differentiators include obviously the quality of life, warm weather and the absence of a state income tax. While the advantages of South Florida will continue to drive the growth of hedge funds based there, Florida-based or managed funds may have a reputation of not matching the quality of say, Greenwich funds. However, the participants of this Roundtable believe this is a mistaken perception.

True - over the years, Florida may have had more than its fair share of fraud and hedge fund failures; but at the same time, there have been many failures around the world as well. Florida has a high concentration of high networth individuals - not only U.S. or Latin American, but also from many other parts of the world - who maintain a second home there. While traditionally those private clients have been less rigorous than most institutions in due diligence, Madoff will have changed a lot in that respect.

This Opalesque Roundtable circles around Due Diligence and provides **unparalleled insights and updates from practitioners and academics.** Hear from Rainford Knight, Ph.D, Co-founder of the Florida Institute of Finance, how his "**Due-Diligence DNA**" attempts to quantify what is "*known and unknown*". This approach goes way beyond the "check-the-box" approach and even further than a forensic process by "*decomposing the double helix of investment and operational due diligence to an incredibly detailed level so that basic building blocks of a hedge fund's strategy and its operational processes can be analyzed, mapped, cross-checked and cross-verified*", allowing a much greater level of transparency.

Hedge fund manager Jonathan Binder says although he is registered with the SEC as a registered investment advisor, "clearly that represents no assurance of any sort to investors that you are doing what you say you are doing or will not find some way to defraud people. **We have had due diligence from funds of funds, insurance companies, consultants, you name it, and we have passed every single one, but I would suggest that very few of them really touched on what I would see from my point of view as being important."**

The Opalesque Florida Roundtable was sponsored by Kaufman Rossin Fund Services and Wells Fargo Insurance Services. We also thank the Opalesque 2010 Roundtable Series Sponsors Custom House Group and Taussig Capital for their support. Hear from:

- **Benjamin Hein, Senior Portfolio Manager, Head of Investment Management,** PRS Investment Advisory
- **Rainford Knight, Ph.D., Managing Partner,** Florida Institute of Finance
- **Jonathan Binder, Managing Director,** Consilium Investment Management
- **Paul Grassi, Hedge Fund Practice Leader,** Wells Fargo Insurance Services USA
- **Jorge de Cardenas, Co-Founder,** Kaufman Rossin Fund Services
- **Kenneth (Ken) Webster, President & Chief Operating Officer,** John W. Henry & Company
- **Stephen Malloy, CEO,** Tunnelbrook Capital, LLC
- **Pete Windhorst, CFO,** Collins Capital

additional details about:
1. how hedge fund administrators themselves are conducting due diligence on managers; and investors on administrators
2. what types of hedge funds are being launched from Florida in 2010
3. how Florida based alternative investment firms successfully bring their products to a wider audience
4. the latest research about manager life-cycles, how to filter the emerging manager universe and capture the best return stream at the optimal time
5. how the crisis has changed the world: Why the traditional characterization of "developed markets" and "emerging markets" has become a trap for investors – and what you should really look out for instead
6. ... an update on hedge fund's D&O (Directors and Officers) insurance: Hedge fund products are complicated and probably twice as expensive as those for straight public-companies. Still, many funds over $500 million in AUM have been raising their coverage limits, year over year, for at least the last three years. But, which funds get the "good pricing, good rates and attractive terms and conditions"?

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Cover Photo: Miami Skyline. Picture by Claudia Domenig

Participant Profiles

(LEFT TO RIGHT)
Standing: Jonathan Binder, Steve Malloy, Jorge de Cardenas, Benjamin Hein, Ken Webster, Matthias Knab
Seated: Pete Windhorst, Rainford Knight, Paul Grassi

Opalesque Florida Roundtable Sponsor

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Introduction

Benjamin Hein
PRS Investment Advisory

I am Benjamin Hein. I manage the Investment Department at PRS Investment Advisory. We are an investment firm with multifamily office services based in Miami. We have been serving clients for 30 years. Our primary client base is offshore, but we have been growing our U.S. client base. We are owned by the Swiss wealth management firm EFG International, headquartered in Zurich with offices in over 30 countries. We manage about $2 billion, an important part of which is invested in alternative investments, especially through internally managed funds of funds.

Ken Webster
John W. Henry & Company, Inc.

I am Ken Webster, President and Chief Operating Officer of John W. Henry & Company, Inc. (JWH®). JWH is a Boca Raton-based commodity trading advisor that has been trading client assets for almost 3 decades beginning in 1982. Over our history we have managed investments for institutional, high net worth and retail level investors domestically and abroad. Our strategy utilizes various systematic, non-predictive, trend-following models that attempt to capitalize on opportunities in over 80 different exchange traded financial and commodity markets around the world.

Rainford Knight
Florida Institute of Finance

I am Rainford Knight. I am the Co-founder of the Florida Institute of Finance (FIF), an academic (mostly Phds in finance and economics) consulting and advisory firm which was started in 2004. In the alternatives area, we advise asset managers, asset allocators and some service providers on manager selection and due diligence. On the asset-management side, we help emerging hedge funds to become more institutionalized by advising them on the development of their operational infrastructure and risk management systems. We represent a little over $1 billion in assets under advisement. As a practice-oriented think tank, FIF also develops training courses for more mainstream academic purposes, covering everything from traditional investment management to hedge-fund analytics, derivatives, structured products, things along those lines. Consistent with our belief in continuous learning, we recently created the Family Office Institute (FOI) and a certification for family offices called the Chartered Family Office Specialist (CFOS™) designation. The principle driver for creating the FOI is the belief that now more than ever the key to wealth preservation is education that is practical and relevant.

Paul Grassi
Wells Fargo Insurance Services

I am Paul Grassi. I am Vice-President with Wells Fargo Insurance Services. We are a wholly owned subsidiary of the Bank and the third largest insurance brokerage in the country. I am a CPA but left accounting about 10 years ago to become a broker where I have since focused on professional liability. I have been brokering hedge funds, investment advisors and the like since 2001 and have run the national hedge fund practice for Wells Fargo since joining the firm in 2004. We have the broadest technical, claims counsel and marketing expertise in the industry. My team and I offer a very high touch client service protocol and leverage superior relationships with insurance carriers that have an appetite for this space. Historically much of that business in centered in New York and Greenwich with some in Boston. I am very interested in expanding our reach to the South Florida Market.

Steve Malloy
Tunnelbrook Capital

I am Steve Malloy, CEO of Tunnelbrook Capital. We are a hedge fund based in Coral Gables. We trade short-term, systematic strategies with U.S. equities - mostly liquid, mid- to large-caps. We are just getting into the futures space on equity indices, the S&P, the NASDAQ and the Dow. Generally, our systems take advantage of wavy patterns in the middle of the day, and we look for major moves and sell-patterns, taking advantage of things such as fear and panic, much like what we are seeing right now in the market.

Pete Windhorst
Collins Capital

I am Pete Windhorst, CFO with Collins Capital. Collins Capital is an independently owned and operated investment advisor which specializes in constructing and managing diversified portfolios of hedge funds. Founded in 1995, the firm strives to deliver consistent positive growth and capital preservation across all market cycles. Collins Capital shares a close alignment of interest with its clients, which include wealthy families, individuals, endowments/foundations and pensions. Since inception, Collins Capital has brought together sophisticated investors with the common goals of capital preservation, risk mitigation and consistent positive results. We currently manage fifteen funds, with $1 billion under management.

Jorge de Cardenas
Kaufman Rossin Fund Services

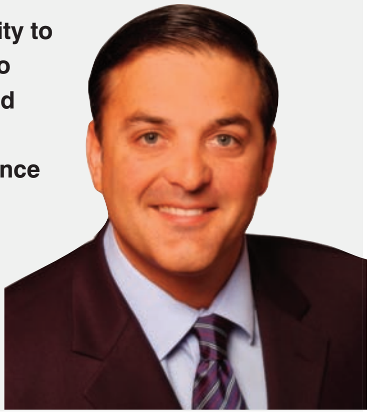
I am Jorge de Cardenas, Director and Co-founder of Kaufman Rossin Fund Services, an independent full-service provider of specialized administration services to the global financial community. Born out of one of the nation's top CPA firms, KRFS maintains top-tier technical skills, quality control practices and technologies. KRFS "Goes Beyond" its competition by delivering expertise in the complex areas of taxation, accounting standards and financial statement preparation. We have offices in Boston, New York, Miami, and the Cayman Islands. We administer about $18 billion and represent hedge funds, private equity funds, funds-of-funds, managed accounts, commodity pools, family offices and high net worth individuals.

Jonathan Binder
Consilium Investment Management

I am Jonathan Binder, Chief Investment Officer at Consilium Investment Management. The firm was founded by myself and my business partner, Charles Cassel, in 2004. Our team's focus is on emerging and frontier market debt and equities and global credit. Our team has extensive experience managing both hedged and long only products globally through both regulated and unregulated investment vehicles.

Matthias Knab What makes the Florida hedge fund community different? What is it like to run hedge funds and hedge fund assets out of Florida?

Jorge de Cardenas: One of the things that differentiates Florida is its geographical proximity to South America and the Caribbean. Florida serves as one of the most important gateways to these regions. While the majority of KRFS' current clients are located throughout the United States, many of the earliest clients which fueled our growth and experience were based in South America. Other differentiators include the quality of life, warm weather and the absence of a state income tax.



To illustrate the geographic distribution of KRFS launches, for the sixteen-month period ending April 2010 KRFS had 107 fund launches. Of these launches approximately 10% were based in Florida and 5% were based in South America.

Ken Webster: John W. Henry & Company has been located in Florida for the past 20-years choosing this location for many of the reasons mentioned by Jorge. One of the developments in the financial world over this past decade is that the hedge fund business has become global and it is no longer necessary to be centrally located in the Northeast. For many years we maintained two offices, one in Connecticut and one here in Florida. About 10-years ago we made the decision to consolidate our operations to Florida and have found that the move has provided efficiencies and benefited our clients with one central location for support.

I also agree with the point made by Jorge about the possible opportunities that exist for managers to service the needs of South America and Latin America in addition to the high concentration of domestic high net worth individuals located right here in South Florida. Miami has become the gateway for investors in many other parts of the world, and those global investors have represented a large portion of the early-on investors in managed futures.

Steve Malloy When you are based in Florida there are a lot of advantages that are obvious: the weather and the taxes for example. The quality of life is one of the main benefits, and when people move here they are thrilled that their commute is 15 minutes, a big difference compared to a place like New York where you can spend an hour-and-a-half each way. It allows you to be more productive at work and have more quality time with the family.

But there is also the proximity to high net worth individuals, and not just Latin Americans. People ask "Why are you in Miami, does this make sense?" Well, there is actually quite a bit of money in Miami, Boca, and Palm Beach; the Latin money is great as well, but there are also many Americans that either live here or have a second home in Florida. Being based here makes it easier to access that market.

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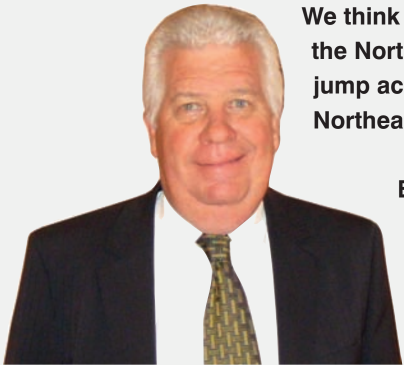
Steve Malloy

Matthias Knab **For the fund of funds and investors here at the Roundtable, what is your opinion about Florida? How do you see this hedge fund center evolving?**

Benjamin Hein I agree wholeheartedly with all of the comments about Florida. It is a good place to be located for tax reasons, for quality of life, and it is definitely one of the high net worth centers of the world. Our client base is primarily from Europe, which is somewhat unusual as we are based in Miami, but often our clients also have a second home or some connection here.

As a fund of funds or private client hedge fund investor you can be located anywhere, especially since the world is more connected. On the other hand, at PRS our business has also evolved as a consequence of being based in Florida. Most of the funds we invest with operate out of New York, Chicago, Boston, London, Greenwich, California and Asia. Due diligence, for example has become more and more complex. We decided that it was not really efficient having our own in-house due diligence team based in Miami. Yet we do still need to be on top of the managers, so of course we fly in and out for the typical two-day New York trip. On the other hand, we recognize that having staff (or having access to staff) that are near the major hedge fund centers is beneficial, for example, by being able to socialize with hedge fund employees after work. So there is somewhat of a balancing act when you are not based in New York or London. Our strategy has been to outsource some of our due diligence and research but keep all portfolio management in-house. This approach has evolved over time and we are happy with our current business model.

Pete Windhorst We are in Florida because as principals we all lived in Miami, and that is why the firm is located here. However, we think there is an advantage to being out of the mainstream and away from all of the noise of the Northeast. We have been successful in hiring quality personnel that are not as likely to jump across the street to another firm which happens frequently to firms located in the Northeast.



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Pete Windhorst

Being located in Coral Gables does not restrict our investing and due-diligence as we are invested in funds throughout the U.S., Europe and in Asia. Our due diligence approach is team-oriented. Any onsite due diligence meeting also includes a conference call with our entire investment group (eight people) participating. So, rather than send an analyst out to meet with the manager, come back, write a memo, and circulate the memo, everybody is hearing firsthand and asking questions directly to the manager. When managers are on site they are coming here to specifically meet with us and give us their undivided attention, whereas in New York it is more of a revolving door.

Jonathan Binder: Traditionally South Florida has not been a big home for hedge funds or investment managers. But I think there is a trend in the growth number that Jorge cited. I would not have expected that 10% of new funds are raised in South Florida. I think over time the advantages of South Florida will continue to drive the growth of hedge funds based here, which is good because unfortunately there is still a perception or a reputation that Florida funds have, shall we say, not the quality of Greenwich funds, and I think that is a mistaken perception.

There is no reason why Miami and South Florida could not be as big a center for hedge funds and hedge-fund managers as Chicago or the West Coast. I think it will be. It probably will never get to the stage of New York and Connecticut, but I think we have that opportunity.

Jorge de Cardenas

I want to clarify that it is within our own fund launches that the number of Florida-based funds is 10%. Given our location here in Florida, that number is probably a bit higher than the representation of Florida funds within the industry as a whole.

Rainford Knight

Many of the asset managers we deal with are here because the principals escaped the Northeast; they wanted the lifestyle of South Florida. So they started their firms here and the firms have grown over time. From our experience with some of the local hedge funds we observe that the community is growing. It really points to lifestyle changes as the major driver for this development. Simply, Florida presents a much more pleasant environment for them to start their work, and technology does make things very easy. Whether or not you call them Northeast refugees, more folks from New York, Connecticut, and Chicago are coming here and seeding their businesses here and therefore more funds are starting to develop and harness out of South Florida.

Matthias Knab

Florida does have an unfortunate history of being the location for some failed managers and some fraudulent managers. Has this raised the bar of investor expectations for fund governance and best practices in Florida funds?

Jonathan Binder: Florida may have had more than its fair share of failures; but there have been a lot failures around the world as well. The problem is there is a sense about how things are done in South Florida that has nothing to do with the location, because there was also fraudulent activity in Boston, Connecticut, New York, Switzerland, and elsewhere.

I am always interested in the process whereby potential investors perform due diligence on us as an investment manager. We are registered with the SEC as a registered investment advisor, but clearly that represents no assurance of any sort to investors that you are doing what you say you are doing or will not find some way to defraud people.

In the end, an investor has to make a decision about whether they trust us. The truth is that you can spend two days in my office and you still will not know how I can defraud you if I wanted to. I believe that to really learn whether I am trustworthy or not is in fact quite different from the processes that most people focus on. We have had due diligence from funds of funds, insurance companies, consultants, you name it, and we have passed every single one, but I would suggest that very few of them really touched on what I would see from my point of view as being important. Which is really a look into the "whites of the eyes" and gain a true understanding of what I am doing, and determining - can you really trust me?

Matthias Knab **Can you give us more details? What should investors really care for? What are they missing on an average?**

Jonathan Binder Running financial assets for clients is a business of character. Investment strategy is one thing, but in the end it is about your assessment of me or of my partner, but what really counts is how our business is run, the staff that we have: are we people of good character? Performance will speak for itself and the strategy will speak for itself; but can you actually trust the people? That is a character judgment, and that is an instinctive thing to me. You can ask a thousand questions. It is not usually the answer that matters; it is probably how the answer is given that matters more.

Matthias Knab **That is a very interesting point, and we touched on the instinctive decision-making that comes from somewhere outside of your conscious mind in our recent Texas Roundtable. Malcolm Gladwell calls it "The Blink Effect".**

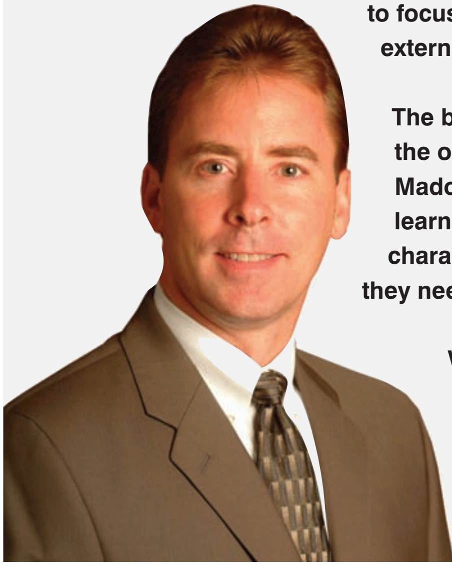
But then on the other side, I met an industry veteran in Boston who was of the taskforce around Harry Markopoulos who dismantled the Madoff fraud. He said Madoff was a master of lies, someone who could create those "blink effects" on the spot. It is a very tricky question.

Jonathan Binder Most of the insiders on Wall Street knew that Madoff was a fraud; many investors had spotted it. In the case of Madoff, most people were chasing that performance. I have found that most investors chase some kind of performance. Let me add that unfortunately, I found that most of the people that come to see us and perform due diligence are people who are not sufficiently trained or who do not have a great deal of experience in the investment business.

When this industry started 30-40 years ago, it was filled with people who were great investors. They made investment decisions based on their own instincts and methods; they were not just checking boxes. The problem today is that investing has become a highly institutionalized process, where work is done by people who are not experienced enough to know what is being talked about.

Ken Webster: I have been in this business for 23-years, and my start was as an auditor out of Coopers and Lybrand in New York specializing in the alternatives business. This was a time when the alternatives industry was in its infancy. Through a series of events at that time I - as a first year audit staff – was placed on a job at Smith Barney, which was at the time one of the largest commodity pool operators in the business. I can tell you that even after having spent a number of years there and developing a great foundation of knowledge and understanding about the industry, an auditor is no substitute for the diligence and daily oversight of a well qualified and experienced management staff.

Audit and Due Diligence firms serve a much needed purpose, providing an additional level of scrutiny and review that benefits both the managers and the end investors. A qualified reviewer brings a different perspective to an organization and can assist in ensuring that critical operational risks are minimized. Firms that specialize in providing



support services to managers like Jorge's also add significant value in allowing managers to focus more on their primary trading responsibilities as well as bringing another external perspective and focused expertise to the manager.

The bottom line is that if a dishonest person wants to perpetrate a scam like some of the ones we have seen over the past few years impacting South Florida, including Madoff, it can be very difficult for external review staff to uncover. The lesson to be learned is that, as Jonathan stated, managing assets for clients is a business of character. When we take on new clients we want to provide them with the information they need to make sure they know what they are investing in before they invest.

We are not comfortable if clients don't do enough due diligence on what we are doing to become comfortable with the performance profile we offer. There is no substitute for proper due diligence and investors need to take the steps required to understand the investment strategy and ensure they are dealing with a professional organization with "character".

Benjamin Hein We work with a hedge fund due-diligence team at C.M. Advisors, that is part of our parent company in Switzerland, and they have analysts in New York, London and Geneva, none of which are "people out of business school for one year" doing check-the-box research. But, when I say we work with external due diligence providers, I need to be clear that we still do not want to invest or work with firms that we ourselves have not visited. My colleagues and I have had many trips so far this year to cities such as London, Chicago, and New York, and we have many more scheduled for the remainder of the year. So we do travel regularly to visit the managers we work with, but we do not feel it is efficient for PRS to staff fulltime employees in Miami for operational due diligence. We have tried different models at PRS, and we are quite happy with our current model.

Fraud may have been more prevalent in Florida because you find here more high net worth individuals that might invest without professional guidance. While I am sure things have changed since Madoff, private clients have traditionally been less rigorous than most institutions in due diligence. That brings me to highlight how important I believe it is for private clients to work with professional, regulated advisors when investing in alternative investments. I am regularly amazed at the amount of auditing that the various PRS entities go through. We have the audit of our registered investment advisor subsidiary, which is one company; we have the audits of our offshore mutual funds; we have the audits of our onshore funds and we have audits of our Cayman subsidiary. All these are performed by major auditing firms. And on top of this, we have our parent company from Switzerland coming in and doing internal audits several times per year. There is not a week without a team of auditors in our office. It is unbelievable.

In terms of funds of funds, the audit environment has ratcheted up dramatically over the past few years. It is not enough from the auditor's perspective for a fund to say they have a signed agreement with an external due diligence specialist. For example, the auditors want to know: are you visiting these specialists? Are you travelling with them to visit managers? Do you participate in calls with managers?

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Steve Malloy

We had an investor visit for due diligence from Switzerland. He ran his family office and has been in the business for ages. Like many family offices, he has close relationships with other families who all collaborate on due diligence and intel. He was not your typical "box checker". He was probably the best due diligence I have seen from a non-institutional group.

He first asked to see our systems trading live. Then he asked us about one specific day a couple months back. First he asked for the P&L and then he asked if he could see our broker statement from that day. We downloaded the statement from Merrill's site and the investor seemed glad to see that. Next he looked at the trades for the day and was able to reconcile the P&L that we had given him for that day with the broker's statement. Then the investor took me out to a 2 hour lunch and talked about all sorts of things as he was trying to get to know me. For me this is the best due diligence because he did the character check but also checked into the exact strategy and brokerage statements of the fund.

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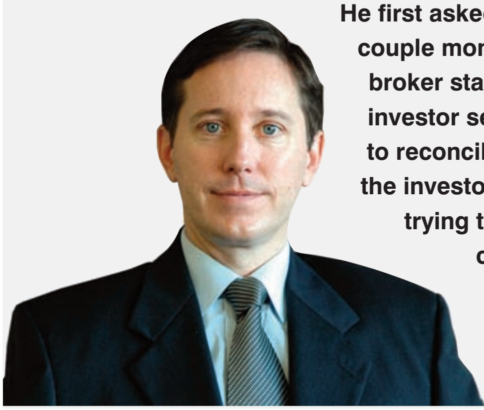

Steve Malloy

Rainford Knight

When our Institute gets hired to perform a due-diligence project, we discuss our approach which we call due-diligence DNA. This approach goes way beyond the "check-the-box" approach and beyond what could be called a forensic process. In other words, our approach is to decompose the double helix of investment and operational due diligence to an incredibly detailed level so that basic building blocks of a hedge fund's strategy and its operational processes can be analyzed, mapped, cross-checked and cross-verified. This process provides for a much greater level of transparency in our view.

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POWERED BY OUR HISTORY

Kaufman Rossin Fund Services grew organically from one of the top CPA firms in the country. We've been providing fund administration since the early 1990s, following the disciplined practices of public accounting. We remain accountable to our clients, to their investors and to our standards.

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We actually try to discover and quantify what is unknown. We also quantify what is known. These are the usual things that everyone will go through when performing operational or investment due diligence. We then combine our findings and numbers into a scoring model. In the last step, we actually go back onsite to the fund, pulling all our insights and intelligence together.

This involves asking the manager about the strategy again trying to find any discrepancies. Usually, the questions cover a couple of areas: 1. From a trading perspective, discuss your risk management process - relate it to trade entry and exit as well as position sizing. Show us some examples. 2. Walk us through the control points in your organization that mitigate operational risk. The impact of change in market conditions on the strategy (i.e. suppose you cannot leverage up? 3. What are the roadblocks to the performance of your strategy in severe market stress? 4. If 2008 were to happen again, what would you do differently? 5. How much counterparty risk do you have? 6. What is your overall exposure versus your position exposure?

For us, due diligence involves two time frames: pre- allocation and post- allocation and these two time periods will have to integrate over a three year time frame. Academic research also explains what typically happens during the lifetime of a fund. Most managers typically don't have a bad year 1 or year 2; the performance issues typically show up later in year 3 and year 4 where the markets may change, the strategy is priced for example. As a consequence, continuous monitoring is necessary.

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Jorge de Cardenas

As an administrator, investors conduct due diligence on KRFS often. We are probably averaging between three to five inquiries a week. This gives us the opportunity to speak with many institutional investors. I believe the knowledge and experience level of the individuals conducting operational due diligence has improved in the last two to three years. I can recall many instances in the past where the individual conducting the due diligence lacked a basic understanding of the mechanics of the industry, for example how a performance fee calculation works.

Additionally, we are seeing recurring inquiries and verifications from investors. It seems that the investors are requesting the same type of data from the fund and the service providers of the fund and cross-checking to confirm consistency. This may indicate that investors are more active and they are applying procedures on an ongoing basis that may help them identify issues quicker.

Jonathan Binder Clearly an administrator has the keys to the kingdom, because no one is closer to the fund manager than the administrator. If I were on the other side of the aisle, that is within the investor universe, the one group that I would be spending probably 90% of my time with would be the administrator; the auditor perhaps less so. One of the reasons we have Kaufman & Rossin as our administrator is because we felt over the twelve or fifteen years we have worked with them that they really understand the instruments we are buying. They know how to price them and how their prices move, and these types of things. That is really required, and if you are an investor, the administrator should be the first person or the first part of the institutional process to identify if something is going.

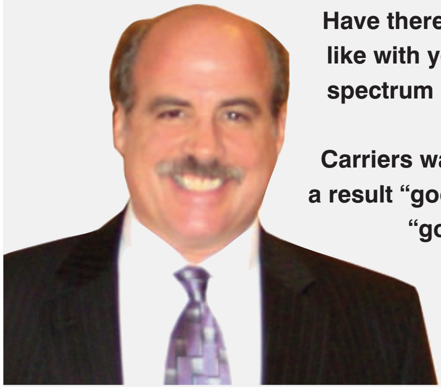
Jorge de Cardenas KRFS is very selective with funds we will do business with. We perform due diligence before accepting a client which generally includes conducting criminal, civil and bankruptcy background checks on the principals and on the Directors of the fund. When we accept a client we also want to know who their other service providers are. If they are using reputable service providers we feel more comfortable that they are surrounding themselves with the right team to manage their business diligently. When they are using service providers that do not understand the business that may be a sign of a problem right up front.

Paul Grassi I would concur that the due diligence process seems to be improving. I know there was a lot of nervousness in the insurance industry post-Madoff, and many people expected that a lot more "Ponzi" schemes were going to come to light. By late 2008 I was preparing my clients for anywhere from 25% to 50% increases in premium. Our financial institutions' underwriters were coming back to us with those numbers, very nervous about where they felt claims were going to shake out. But, it never materialized.

One of the most important things to us when performing due diligence on a fund is to find out who is auditing the funds and who is brokering the trades. We want to know if a fund has multiple prime brokers, a Big 4 or high quality regional audit firm, and what does that firm's adviser clientele look like. Most of our good clients - if they did not have any issues with SEC or other regulatory agency – were actually able to renew their premiums either flat or maybe up 4% to 6% or 7% maximum, which would mostly be based on their AUM growth and performance vis-à-vis the industry.

There have certainly been large risks that have been covered with insurance, Amaranth is probably the biggest in recent history. However, a lot of those poorly run funds would not have opened themselves up for the kind of critical review and vetting that a carrier requires to offer coverage.

I have also noticed in the last ten years writing hedge funds that the quality at the carrier level has increased exponentially. Hedge fund products are complicated and probably twice as expensive as straight public-company D&O (Directors and Officers), and all parties involved are at the top of their game. It is very interesting to put an underwriter together with a Chief Operating Officer or a Chief Administrative Officer of a fund. They now ask about things such as redemptions versus subscriptions, investment attributions, EDP (Electronic Data Processing) processes and communications. Have gates come up, or have there been any strategy changes? Have there been amendments to the offering memo this year? What are your communications like with your investors? Have the investment attributions changed? Where are you in the spectrum of what you are telling your investors?



Carriers want to do business with high quality funds and they price premiums accordingly. As a result "good" funds will get good pricing, good rates and attractive terms and conditions. By "good" I mean funds with long-term track records with good performance, effective infrastructure and high quality outside service providers.

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Matthias Knab **Are you insuring the managers or the management company? And do more investors now inquire about insurance?**

Paul Grassi The product, a hybrid E&O (Errors and Omissions) / D&O, is professional liability insurance designed to protect the funds' management entities, its employees, the funds' general partners, the advisers and to a certain extent, the investors in the funds. It is primarily used to fund the manager's defense against potential litigation, formal investigations, allegations of wrongful acts, things of that nature. Funds that take outside Board representation in public [portfolio] companies can utilize the D&O coverage in the policy to supplement what that Board's own D&O coverage might afford them. We definitely see institutional investors asking not just for this insurance, but even specifying terms and conditions of the policies and asking for certain levels of coverage. I would say that the majority of the funds north of $50-$100 million in assets have been exploring coverage, perhaps for the first time. Many funds north of $500 million in AUM have been raising their coverage limits, year over year, for at least the last three years.

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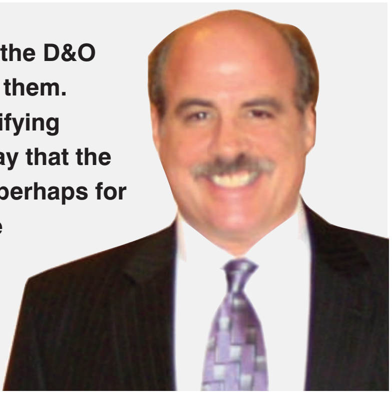

Matthias Knab **Jorge, what are some of the strategies of the new funds launching? What is the average fund size and where are the managers coming from?**

Jorge de Cardenas We have seen a lot of U.S. and emerging market equity long/short, commodity, and fixed income strategies. We have also seen activity in Florida-based funds focused in distressed real estate and loans. Some of these strategies are being implemented through managed accounts and fund-of-managed accounts.

The average launch in the last six months has probably been between $15 million to $20 million, although there have been launches as high as $150 million. That being said, a lot of the launches were based on "family and friends" money, where managers are trying to develop a track record for a year or so before they market the funds.

Matthias Knab **As Florida-based funds, how do you grow your company? Are you launching any new products?**

Jonathan Binder We have existing products that we are continually marketing, both here and in Europe. The issue to starting new products now is finding seed capital, but there are different avenues and routes to addressing that issue.

A couple of institutions are specifically interested in providing seed capital in return for a share of the fund company, or sometimes the advisor itself. However, the nature of these deals have changed quite dramatically over the last two or three years in terms of the size of seed capital that is available and the terms and conditions on that seed capital.

Deals have probably become a little bit more realistic and in favor of the capital, which I think it is probably appropriate. The environment in 2006-2007 was very different when money was chasing new managers who would potentially raise a lot of money. Today people have become more realistic that even managers with sterling reputations do not necessarily make great hedge fund managers. There is more realism on both sides how a new product should be launched, how to raise money in proving out that process.

Rainford Knight We work with a number of seeding or incubation firms and Jonathan is correct to point out that the capital is expensive in terms of what the manager has to give up. Some of the firms we work with, for example New Max Advisors, have a mix of programs. They have a first-loss program, a traditional seeding approach, or a dollar-for-dollar match. The manager that needs capital can decide which tranche they want to use depending on their risk tolerance and the extent they need the capital. So there are some innovative ways out there beyond the traditional institutional base, family offices etc. for managers to raise capital.

Ken Webster Like most managers we are looking to grow assets in an environment that for many reasons has become difficult. Regarding new products, our history was mainly focused on high net worth clients. We have always had a base of institutional clients as well, however as we have been one of the higher-volatility managers in our space, this was not necessarily a good fit for the lower volatility mandates of many of the institutional clients looking to invest in managed futures.

In meeting with and listening to the needs of these investors we have addressed these concerns by creating an institutionally focused series of products that were funded and launched earlier this year. These programs are designed to attract institutional assets while maintaining the same benefits that our core products do, but at lower volatility and leverage levels with an extremely competitive fee structure. We are also looking at what is happening in the marketplace, for example, the transformation taking place at the banks. Many of the large banks have merged with others and some have gone under. A large number of financial advisors are leaving the space that has traditionally funded our business. These advisors are going to more boutique-style shops, and as a result we see a large increase in the desire for alternatives at firms that previously had not focused on those asset classes. The level of expertise at those firms is certainly growing, which is very positive for our industry.

Many of these financial advisors are actually leaving in teams, and so many firms that have never done managed futures or any alternatives before are now considering the opportunities and are beginning to offer these products to investors. I think John W. Henry & Company has a unique advantage: we have been doing this for 30-years, and utilizing our long-term expertise and experience in educating investors on the benefits and risks of managed futures is something that we bring to the table beyond just the programs we are offering. There is real opportunity for our industry in this transformation.

I also see a lot of opportunity in the way our products are delivered. I know a lot of people are also looking and evaluating vehicles that actually can bring CTA products to a wider group of people. One vehicle could be ETFs, which have become very popular. Putting together an actively managed ETF is incredibly difficult to get through the regulatory process, but it is something I believe is going to happen.

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Matthias Knab **Are you working on the launch of an actively managed ETF?**

Ken Webster

We have been investigating this possible opportunity. There are a lot of regulatory roadblocks, and our analysis and research started long before the 2008 crisis. The current political environment has made it very difficult to develop new financial instruments while the world reviews the calamities that are, in part, blamed for the current economic crisis. Financial reform is in focus and until that is finalized I believe innovation in the financial markets will be a slower process.

People are also very interested in UCITS funds overseas. It is more complicated to structure these and to get these launched; but these funds obviously have become very popular. We are looking at the transformations occurring within the industry and are eager to create new opportunities and vehicles through which we can deliver our programs.

Matthias Knab **Just to add to the UCITS fund launches – it was reported recently on Opalesque that Europe's 1000+ alternative UCITS funds have already captured $200bn from investors worldwide.**

Benjamin Hein We are primarily a multifamily office, so our focus is first and foremost to serve our current clients. But obviously, as a firm, one wants to grow. We aim to gather a larger share from our existing clients by providing good service and results. We started working with U.S private clients in the last two years, whereas traditionally PRS had focused on offshore private clients. Our U.S. business is a growing part of our business, and it is a key part of our long-term strategy. We decided to enter the business because we had some offshore clients become US residents, and we also saw how much service had deteriorated at many of the large banks located in Miami.

Looking at the local Miami market of wealth-management firms – for example at the large banks – it seems to us that many of these firms offer a limited array of products and have become very inflexible. We feel we can offer so much more through operating as a nimble and local boutique that has access to the ideas and services of a parent firm with offices in over 30 countries. We believe we can add value and do more things for our U.S. clients than they perhaps have experienced at other places.

Our product launches are primarily client-driven. For example, we have U.S.-domiciled alternative vehicles that solely invest in managed account-based funds. You need to be a qualified investor to invest in those. Typically there is a large minimum investment of $1 million or $5 million associated with the underlying managers. But because we created our funds just for our own clients, we can accept much lower investment amounts. Some of our clients have come to us from firms where U.S. clients generally would not invest in alternatives, or if they were able to, but then heard about a $1 million or $5 million dollar minimum, they were not interested.

Earlier this year we also launched two funds of funds domiciled in Luxembourg, following requests from some of our European clients. They said they were hesitant about investing in funds in Cayman, which is where our funds are primarily based, due to potential regulatory changes in Europe. There appears to be some protectionism going on in Europe, with the EU trying to get managers to move funds into Europe. We thought it was prudent to adapt to what our clients are asking for and to what the regulatory environment seems to be demanding, so we opened these two funds.

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Even though we have been purchased by EFG International, a Swiss wealth management firm, PRS operates independently. However, we recognize that PRS and EFG clients can also mutually benefit from our services and products, so we are constantly marketing internally to other EFG affiliates.

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Paul M. Grassi, CPA, MBA, CRM, CIC
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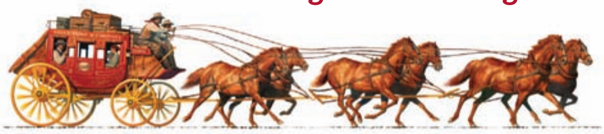
Together we'll go far



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Pete Windhorst

Our approach has always been to listen to our investors and then offer a product that meets what they are looking for. In 2007 we launched a credit opportunity fund, as we saw the credit markets overheating, therefore creating opportunities for managers to invest both long and short across the capital structure and in relative value plays through both sovereign and corporate credit. Then after the liquidity freeze in 2008 we launched the Liquid Trading Fund, because we saw that investors were looking for investment alternatives offering better liquidity terms. In the current market environment with uncertainty and higher volatility, managers investing with a shorter term focus, with nimble and frequent trading in highly liquid instruments, should outperform other investing styles. This shorter-term investment style in very liquid instruments also provides greater liquidity, particularity in times of stress. The Liquid Trading Fund offers monthly liquidity with no lockup, liquidity terms that are not typical of a fund of funds.

Rainford Knight

Looking at the data, we can identify a shift away from long/short managers. Prior to the crisis in 2008, a vast majority of these strategies tended to be long/short. According to institutional research data, most institutional investors are taking another look at the truly uncorrelated strategies. In fact, long/short has actually been diminished as those investors started to look at more exotic strategies: metals, commodities and things like that. They use these strategies to add an uncorrelated component to their overall portfolio.

We also focus on emerging managers. Once again, this is based on research. We found that there are manager lifecycles, and so you are better off getting a manager early in his or her lifecycle – say their first two- to five-years. After that performance tends to suffer. To the extent we can, we try to advise allocators to invest in managers that are within a two- to three-year window of their launch, then grow with them out to five years and then begin to wind down the investment after 5 years, if not sooner.

The hedge fund cloning methodologies developed by Harry Kat have shown that these strategies are able to clone the performance and beat most funds of funds after fees, however not before fees. We have a fund of funds client that actually shares the 2 and 20 fee with the manager so that it becomes 1 and 10 to the fund manager and 1 and 10 to the fund of funds. The rationale is to get better performance on a net basis, as research shows that typically most funds of funds do not add much value on an after-fee basis.

Part of our analysis and due diligence research of a manager includes what we call "AUM capacity analysis". Along with the aging analysis of the manager, we try to the extent possible to gauge the manager's optimal capacity. If a fund is at $50 million, we ask about the max capacity: "what can you handle?" If the manger says for example, "half a billion", we want to know exactly how he will trade the assets into his strategy. How will he deploy that capital over time? We would also look to see how the strategy performs against the current backdrop of similar strategies in the market as way to examine the extent to which the strategy is distinctive.

For those investors who want to engage themselves in the emerging-manager space, you want a manager following a scalable strategy, where you can see that the performance is developing well over time and also how AUM increases relate well to the strategy performance. You want to give yourself about a five-year window to determine whether or not that particular strategy is well-priced, and after that we usually wind down our investment. However, things are a bit more complex, of course, as there is no black-and-white scenario; but that five year threshold is something that we watch for.

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We study systematic strategies versus discretionary strategies, and shock environments versus normal trading environments over longer time series. According to our research, discretionary strategies do not do very well in volatile times, because reference pricing is very difficult to determine in many asset classes. Systematic strategies can be more volatility-driven and therefore tend to do a little bit better then.

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Matthias Knab **Steve, Thursday, May 6th was a very interesting day in the US markets with the Dow dropping 1000 points. What did you see going on that day?**

Steve Malloy Yes, May 6th was one of those days that will stand out for quite a while, especially because the volatility had come down so far in the previous weeks.   If you look two weeks before, the VIX was around 15 and then it blew out to 40, the strangest thing was that in the middle of the day the markets dropped by 400 points within minutes. I do not remember ever seeing them move that fast and have been in the business for over 15 years.

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It is funny, because in some ways there is so much greed on the table right now, so to some extent you could think that everyone has forgotten what happened. But then comes a move like May 6th and you see people fleeing for the door – it rather seems that people have not really forgotten what exactly happened to this economy and the catch 22 that the government is in now. Equity investors have enjoyed the ride up, but their fingers are right on the trigger ready to blow out of their positions very quickly when the direction looks to turn sour.

Steve Malloy

It was a quick move, and it has yet to be determined exactly what happened. So far there is no single culprit, maybe it was some sort of fat-finger mistake.

The whole episode shows to me how skittish investors are at this point. Everyone knows that there has been a ton of liquidity pushed into the global markets; it has mostly gone to the equity markets and therefore those markets rallied. I think the memory of what happened in 2008 and the beginning of 2009 is so recent in everyone's mind that when people think they see the beginning of a downward move, they sell fast because a lot of investors are profiting on borrowed funds.

It is funny, because in some ways there is so much greed on the table right now, so to some extent you could think that everyone has forgotten what happened. But then comes a move like May 6th and you see people fleeing for the door – it rather seems that people have not really forgotten what exactly happened to this economy and the catch 22 that the government is in now. Equity investors have enjoyed the ride up, but their fingers are right on the trigger ready to blow out of their positions very quickly when the direction looks to turn sour.

Jonathan Binder

The issue is that since 2007-2008 there has been no change to market structure. Despite all that happened, there was no real market or financial reform. I think the same applies to the fundamental economic policy that we follow here in the United States and certainly in large parts of Europe and the developed market world. We have only put a bandage on the problem. We are not addressing the fundamental problem, either in the fiscal sense or in a broader economic sense. So to me it is not surprising to still see such volatility in the markets, because the system is pumped with cheap and easy credit again. This was precisely one of the issues that got us into the 2008 disaster.

The issue is that since 2007-2008 there has been no change to market structure. Despite all that happened, there was no real market or financial reform. I think the same applies to the fundamental economic policy that we follow here in the United States and certainly in large parts of Europe and the developed market world. We have only put a bandage on the problem. We are not addressing the fundamental problem, either in the fiscal sense or in a broader economic sense. So to me it is not surprising to still see such volatility in the markets, because the system is pumped with cheap and easy credit again. This was precisely one of the issues that got us into the 2008 disaster.

We specialize in emerging markets, and part of our story for investors is that you should no longer look at the world using the traditional characterization of "developed markets" and "emerging markets". Instead, you should look at the world as countries that are fiscally responsible and countries that are not. Whether that country is in Europe or in South America should make no difference to you. For example, you can look at South America today and you'll find that there is a Chile and then there is a Venezuela. Two countries in the same region, but clearly running very fast and rapidly into different directions -- just as in Europe you have Germany and Greece, or Spain and Portugal versus other countries maybe like the Netherlands or Scandinavia that have relatively appropriate policies.

I think that for many different reasons, the problems have not changed at all in the fundamental sense, and yet you have had this papering over of these issues at the economical and policy level, and at the market infrastructure and reform level. In my view, we should expect big, big problems once again.

There are two factors to making the determination as to whether or not a country is fiscally sound. First, is government policy sound? And second, do they have a kind of broadly supportive export that provides a cash-flow advantage?

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There are two factors to making the determination as to whether or not a country is fiscally sound. First, is government policy sound? And second, do they have a kind of broadly supportive export that provides a cash-flow advantage? Like many investors out there, we believe that energy is something that cannot be replaced easily. Oil is difficult to find and difficult to bring on production quickly, so there is a powerful supply/demand advantage for a number of energy products. Generally we like countries that are exporters of energy in one form or another.

The same could apply to agricultural commodities; however, within that, you can look at a country like Venezuela which is an energy exporter, but for obvious reasons we do not like it. These are just some examples of the types of themes we approach in a top-down view in order to discern countries that broadly will be attractive to be long and to identify unattractive ones you should be looking to go short.

Matthias Knab

You mentioned that all we have done so far is place a bandage – trillions of dollars of other people’s money - over our markets. What would be an actual cure for this type of debt crisis?

Jonathan Binder

I think it varies from country to country; but certainly in the case of Greece our opinion is they are too deep in the hole and they will have to default. Other countries such as Portugal and Spain may have the opportunity with the right policy mix to recover over time; but I think there is going to be a substantial increase in the differentiation of credit quality.

You went through this period from 1998-1999 through 2007 - after Long-Term Capital and the Russian crisis spreads were out at 18% for a lot of emerging-market credits, and subsequently for 10 years they basically came down in a more or less straight line. I think the all-time tight level for the NB was somewhere around 150 basis points. Then everything blew out, and in the 12-15 months everything compressed again until the last month or two. I believe that we are now in an environment where countries should be assessed on their fundamental credit quality, and not because you are a member of the Euro or in the European Union or because you are in South America or because you are in Asia. People should look at you as an individual country or an individual corporate credit and say “What are your policies? What are your advantages?”

Benjamin Hein

I am curious to hear what others at the roundtable think about incorporating different types of investment structures in funds of funds as an additional diversification element beyond just investing into different asset classes or strategies. For example, we decided we wanted to have a certain amount of UCITS III and managed account platform based investments in our funds of funds, given the better liquidity and the better oversight of that structure. Of course this only makes sense when we do not feel that return potential would be overly compromised.

Another example would be certain strategies – let’s can call them semi-distressed - that are long-only in their approach but do not need to be invested into through hedge funds. In late 2008 we invested in mutual funds that bought leveraged loans. We had just had a round of hedge-fund visits in New York, where managers said "leveraged loans are unbelievably cheap, so please invest with us in our fund structure with 2% management fees and 20% performance fees and with a one year lockup." We went back and invested in a long-only leveraged-loan mutual fund charging under 1.0% with daily liquidity. We did the same thing in early 2009 with a long-only convertible fund. I am not saying that there are table-pounding opportunities in these asset classes today, but we try to be open-minded when such opportunities arise.

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We are also doing more with separate account-based investments. For example, we have been very interested in the distressed residential mortgage-backed securities area. Our parent company shared our interest and identified a U.S.-based long-only institutional asset management company – not a hedge fund – to create a customized RMBS fund just for EFG's clients last summer, with PRS as one of the largest investors. That firm likely has more analysts working on RMBS than most hedge funds, and we also enjoy an institutional-type fee.

My point is that we think very carefully about the types of managers and structures we invest with, especially since 2008.

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My point is that we think very carefully about the types of managers and structures we invest with, especially since 2008. I believe we all have become a bit skeptical of the "two-man shop" that used to work at big investment bank and decided to create a hedge fund focusing on a liquid strategy. Two years later it turns out that they had been buying pre-IPO equities necessitating the creating of side pockets when faced by an onslaught of investor redemptions. We are also looking more closely at institutional asset management firms that may also have an internal hedge-fund business. We feel that such firms have more robust compliance and operational infrastructure, which increases our comfort level. So, we are thinking about things a little bit differently above and beyond merely asset classes and what percentage of an asset class you have in a fund of funds.

Jorge de Cardenas

Benjamin, have you looked at the performance correlation between the mutual fund versus the alternative products?

Benjamin Hein

Well, I do not know if you have a hedge fund that only does long-only for the period of time that we invested in long-only leveraged loans, because typically that would be some sort of distressed manager or multi-strategy manager. So it would be hard to separate out the return components, because they likely were also investing in other asset classes.

I think that it is a good question, but not an easy one to answer. Perhaps you may also be thinking about a UCITS III structure, where the question may come up if the UCITS III will have the same return stream as the manager's main fund. We are certainly looking at this. The UCITS III space is evolving, and a lot of funds are launching, and certainly some strategies like equity long/short are dominant there. The UCITS framework does have certain restrictions in terms of leverage and asset classes, so we don't view it as a panacea, but as a way to gain diversification in terms of the types of investment vehicles we use.

Matthias Knab **You also said that institutional fees like 50 basis points are more attractive to you versus 2 and 20, right?**

Benjamin Hein I am happy to pay a higher fee for good results, but I think in the dislocated markets we have had over the last two years you come across certain asset classes when you visit managers, and you can see that you don't need a hedge fund structure to access them.

I am not saying leveraged loans are the screaming buy today that they were in late 2008. At that time, did you need to go to a hedge fund and pay 2-and-20 and lock up your money for two years to get the return? No, you did not. You could buy daily traded on- or offshore leveraged loan funds. I am not saying these opportunities will always be there; but my point is that with the evolving market structure and instruments, we are trying to be much more open to different ways and structures in terms of how we invest and access managers. It doesn't have to be a hedge fund each time.

Pete Windhorst We are a domestic-based master fund, so we only invest in onshore funds. Historically, this structure has been an advantage for us as top tier managers will typically be closed in their offshore fund, but still have capacity in their onshore fund. We are also exploring offering a fund of managed accounts as a separate product that would provide for full transparency to investors. We believe that traditional fund of funds will still provide better long term returns than a fund that offers full transparency because a large group of top managers will not offer full transparency and therefore be excluded from the universe of investable funds.

Rainford Knight One of the asset managers we have done some work for is a fund of funds which uses a Series LLC structure in which there are silos. Within each silo different series can be issued. This allows for independence across the silos in terms of strategies, as well as within silos. For example, if there are three currency managers and one of them blows up, it does not necessarily impact the other funds within the silo, nor does it impact the funds across the platform. That structure is designed to look at the cross-correlations not only across the platform, but also within the silo to determine the optimal combination of strategies.

One thing that may be noteworthy is the fund of funds excludes long/short managers from that mix. The reasons for that are partly due to liquidity concerns – investors today are looking for greater liquidity levels, and therefore we prefer CTA strategies and other strategies that can meet the liquidity needs of clients.

Ken Webster As I mentioned earlier, we are looking for possible additions to how we currently offer our managed futures products. Benjamin was saying they are looking at alternatives like UCITS and investing across various vehicles for liquidity's sake, and Rainford just underlined the liquidity benefits for CTAs such as us. Indeed, CTAs trade the most liquid markets in the world; neither we nor one of our peers ran into the liquidity traps like many hedge funds in 2008, highlighting another significant benefit for investors that should support the continued growth of the industry. All of the investment product attributes that people are now asking for including product and market liquidity, and transparency and adequate regulatory oversight are benefits offered by CTA investments since the inception of our industry.

We discussed today the value of mutual funds for investors. The ease of investment that an investor receives through a mutual fund is not available for managed futures. Most firms have given up on this form of managed futures offering to the public because of its high costs and changes in regulatory treatment, instead focusing on private placement investments available only for qualified investors. However, the demand for managed account-based products is high due to the increased liquidity and transparency provided. We at JWH have recently launched a managed account product, following client demands, with an entry point well below the norm for the industry.

Paul Grassi

I am curious to hear from the group how everyone views risk, given Jonathan's point that the regulations remain unchanged and largely the same, and that there is this uncertainty about where they are going to go. Do you view risk differently than you did maybe 12-18 months ago? Has your compliance changed substantially? Are you worried more about litigation from investors or potentially from Attorneys General or SEC or whatever? Has the diligence that the fund of funds perform, changed at all?

Jonathan Binder

I think the risk that we are much more attuned to is liquidity risk. In the CTA space and commodities this may be different; but certainly in our space – global macro in emerging markets - it is very important that our investors understand the instruments we are investing in and the reasonable liquidity profile that comes with those types of investments.

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Benjamin made the point earlier about using ETFs, mutual funds or institutional long-only products to get a certain risk exposure at very low fees. I fully agree with that approach. There are times when you allocate as you see an opportunity, and you do not need a hedged approach. But sometimes that is going to be different. For example, the portfolios we design are aimed at giving the investor an exposure profile they specifically could not create themselves because of the complexity of structures and instruments we invest in. This could include loans, securitized products etc., however we are always careful about liquidity.

Our profile as an emerging markets investor is very different compared to a CTA, and I would say that the greatest degree of education for investors, whether it is institutions or the end investors (retail), lies in the understanding that they must have reasonable liquidity expectations. It does not mean you have to have two-year lockup or one-year lockup, as many times managers just use that as a smoke screen. But certainly if you look at the last 15 years or so, history tends to demonstrate that major market crises unwind within about three to four months.

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As we have looked at it, specifically from the emerging-market or global high-yield credit perspectives (which tends to take the brunt of that type of illiquidity), usually within three to four months enough liquidity comes back such that we can manage any redemption activity accordingly. And that level of liquidity is really to prevent one group of shareholders impacting negatively another group of shareholders, which is the biggest issue that the people have to confront. But I think liquidity is going to be the name of the game within risk for the foreseeable future.

Matthias Knab **Are there certain thresholds that are happening in the market that might change that lockup dynamically? Is it possible to add such clauses into the subscription agreements?**

Jonathan Binder We do not have any lockups, just a 90-day minimum notice period because we find that that has worked for us over the last 15 years through all the different crises that we have been through - whether specifically to emerging markets or the global 2008-type of crises. But surely I believe that clients continuously need to be educated about what is a reasonable liquidity profile for the types of things that the manager is doing.

Steve Malloy Liquidity is being treated as a premium these days because of the lesson learned in 2008/2009 and because the market is so jittery now. Managed accounts are very popular now and we are seeing growth through new products as well. We are rolling out a new strategy and are actually getting paid to trade because we act similar to a market maker by adding liquidity to the market

Benjamin Hein I absolutely agree, I think we are much more focused on liquidity than we were in the past.

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I'll give you two examples. Yesterday we had a pitch from a hedge fund that focuses on middle market leveraged loans and high-yield bonds. I thought to myself "This is a really interesting fund, and they can probably harvest a certain illiquidity premium over time", because the fund focuses on smaller deals than some of the other large hedge funds we work with. But the fund offered quarterly liquidity with 60 days notice, and which in my view is almost a risk factor. I would rather see such a manager offer either semiannual or quarterly liquidity and a 90 or 180 day notification period. It just makes me nervous.

In another example, we were in London in January visiting a large credit-focused hedge fund where we are an investor. After that meeting I got a call from one of the fund managers indicating that the fund was thinking about adjusting its liquidity terms. It was monthly liquidity with 90 days notice, and they were thinking about going to quarterly with 90 days, I told them that I absolutely thought they should ask investors to approve the change.

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Jonathan Binder

A word of warning - UCITS III products are daily-liquidity products. So you should be very careful about what strategies and asset classes you invest in with a UCITS III manager.

Benjamin Hein

Correct, but the typical long/short equity fund investing in large or midcap stocks will probably be able to meet that. However, UCITS III offers some flexibility and can actually have up to two-week liquidity.