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Opalesque Round Table Series '11

WEST COAST

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Editor's Note

Dear Reader,
In our third Opalesque West Coast Roundtable we once again met with distinguished hedge fund managers and hedge fund investors from the region to speak and examine a wide range of relevant topics for our industry:

Why family offices shift assets from mega funds to smaller funds

As hedge funds have gone from $1 billion to $5 billion and then to $25 billion, investors feel they became a kind of commodity "sitting on a conveyor belt". They are more distanced from the investment manager and complain about "canned" answers from IR rather than being able to have thoughtful discussions with investment managers. While the so-called mega funds can serve a purpose in a portfolio, some family offices prefer to rejuvenate the gene pool and are in fact "excited" about current opportunities with some smaller funds. Another consequence of the industry's asset concentration with the largest funds is that it has actually changed the due diligence process.

Should all hedge fund managers try to "manage the macro"? And if so, how?

In current times of uncertainty, many equity long/short managers who typically have been bottom up are now wanting to add a macro component to their portfolio management, usually by adjusting exposures more often. How should a hedge fund manager, that is not a global macro manager, go about "managing the macro"? And what do investors think about this trend?

Hyper Growth to create tensions – the demise of paper money?

Mapping countries like Japan, Taiwan, Singapore, Korea and Chile against the currently emerging China and India shows how the world is going to look like over the next 10 or 20 years. Hear the Roundtable speculate on some of the consequences of this hyper growth pattern that 50% of the planet's population is entering at this time. Until what point will paper money continue to devalue versus hard assets? How can systematic traders and CTAs help investors in such scenarios?

In this Roundtable, you will further read about:

- **Is there a bubble in technology? A view from Silicon Valley**
- **How energy prices (oil & gas) movements can blind investors**
- **Democratization of Alternatives: For the past five years alternatives mutual funds are the fastest growing mutual fund sector, growth rates accelerate to 50-55% annualized**
- **Risk-based investing: New open architecture infrastructure solutions for liquid alternatives allows investors to manage, control and risk-budge investments in multiple managers and strategies and empowers managers to manage money across multiple investors and custodians from a single interface**
- **What is the strategy mix of emerging West Coast hedge fund managers**
- **And more Updates & News from the West Coast.**

The Opalesque 2011 West Coast Roundtable was sponsored by Kaufman Rossin Fund Services and took place in March 2011 in San Francisco with:
Alissa Douglas, Director, CM Capital Advisors
Charles Johnson, Managing Director, Tano Capital
Rob Romero, Portfolio Manager, Connective Capital
Steve Hotovec, Chief Operating Officer and Founder, Alchemy Ventures
Patrick Wolff, Founder and Managing Member, Grandmaster Capital Management
Chris Wolf, Chief Investment Officer and Founder, Preservation Trust Advisors
Jason S. Gerlach, Principal - Director of Strategic Planning, Sunrise Capital
Keith Sharkey, Co-Founder, Kaufman Rossin Fund Services

We also thank the 2011 Roundtable Series sponsor Custom House Group for their support. Enjoy "listening in" to the Opalesque 2011 West Coast Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Participant Profiles

(LEFT TO RIGHT, STANDING FIRST)

Charles (Chuck) Johnson, Jason Gerlach, Patrick Wolff, Rob Romero, Matthias Knab

Keith Sharkey, Chris Wolf, Alissa Douglas, Steve Hotovec

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Introduction

Alissa Douglas
CM Capital

My name is Alissa Douglas. I am with CM Capital, a family office in Palo Alto, CA. CM Capital is the family office for the Cha Family, a multi-generational family based both in HK and the US.

The Cha family's business date back to the early 1900s when they modernized the textile industry in China. Today, they have three main lines of business. One is the global textile operation; the second real-estate primarily in Hong Kong; and the third, financial services, both in China and US.

CM Capital's office in Palo Alto was established in the late 60s. The family started buying real estate and added venture, private equity and hedge funds. Today we manage over a $1 billion, primarily in alternatives, with a long investment horizon.

My responsibility is to co-manage the portfolio of non-real estate assets with a focus on public investments, particularly on hedge funds.

Chris Wolf
Preservation Trust Advisors (PTA)

I am Chris Wolf, CIO and Founder of Preservation Trust Advisors (PTA), an absolute return mutual fund of funds platform based in San Francisco, California. PTA is focused on giving institutional and retail investors access to premier hedge fund strategies within a mutual fund structure, providing many advantages in the ongoing economic environment.

We have a group called Cogo Wolf Asset Management, which was nominated in 2009 as "Emerging Manager of the Year" at the 7th Annual Institutional Investor Hedge Funds Awards Ceremony. Cogo Wolf Partners Group makes principal investments globally on behalf of its private clients.

We also provide strategic advice. I am on the board of a number of companies in diverse places like Vietnam and Hawaii, and we have interests in the G3, the BRICs, as well as in Qatar and Dubai.

Steve Hotovec
Alchemy Ventures Inc

My name is Steve Hotovec. I am co-founder and chief operating officer of Alchemy Ventures Inc. Alchemy was established in 2005 to develop an open architecture infrastructure for liquid alternative investments. We built an infrastructure that allows us to invest in multiple managers and strategies, much as a fund of funds would, while maintaining the benefits of liquidity and transparency that separately managed accounts provide.

Based on our investment activities and experiences we created a risk managed account platform that would empower investors to link multiple managers and strategies within their own investor-controlled account. In addition, this platform empowers managers to manage money across multiple investors and custodians from a single interface. Our risk-budget approach to allocating assets enables investors to establish a maximum allowable loss in pursuit of a targeted or desired return. This risk-budget is applied at the portfolio and strategy level.

The turmoil within the financial services industry in 2008 provided an opportunity for Alchemy to partner with consultants, advisors and institutions sharing a like-minded philosophy about the importance of risk control. Many investors were caught off guard when correlations collapsed, liquidity dried up, and lockups and gates were enforced by hedge fund managers. Investors were left scrambling to assess damage to their portfolios and decide on their next course of action. To this day, many investors are electing to sideline cash until an improved structure or method could be identified to keep the same thing from happening again.

The infrastructure that Alchemy created answers this call. We wanted to develop a method to access talented managers in a way that would allow us to not only quantify risk, but also control it. We wanted to maintain control of our capital and our liquidity. We wanted to hire the most talented managers we could find that could adhere to our risk-budget investment philosophy. The end result is Alchemy's Risk Managed Account Platform.

Without a doubt, risk-based investing is a concept whose time has finally come. This is evident in liability driven investment mandates that are being implemented at the state and local levels here in the United States. Target return and target date mandates are going to be more commonplace going forward.

Keith Sharkey
Kaufman Rossin Fund Services

My name is Keith Sharkey. Director and Co-founder of Kaufman Rossin Fund Services, an independent full service provider of specialized administration services to the global financial community. Established in 1994, KRFS maintains top-tier technical skills, quality control practices and technologies. KRFS "Goes Beyond" by delivering expertise in complex areas of taxation, accounting standards and financial statement preparation. We have offices in New York, Boston, Miami, Cayman Islands and recently opened our West Coast office here in San Francisco.

We administer approximately $18 billion and provide full fund administration services to an array of structures both offshore and domestic. Entities we service include hedge funds, fund-of-funds, publicly traded closed-end funds, private equity funds, managed accounts, commodity pools, family offices and high net worth individuals. We support all investment strategies and have experience with all types of financial instruments. We are constantly enhancing our technological infrastructure, enhancing our use of Advent Geneva and Advent Partner with proprietary systems and software. We have experienced a lot of growth due to our expanding presence and look forward to supporting the success of our industry on the West Coast.

Jason Gerlach
Sunrise Capital Partners

My name is Jason Gerlach and I am a Principal of, and the Director of Strategic Planning for Sunrise Capital Partners of San Diego, CA. Sunrise is a systematic macro trading fund that was founded in 1980 and offers investors one of the longest and strongest track records in the alternative investment industry. We manage approximately $750 million in client and proprietary assets and have delivered 13% compounded annual returns in our flagship fund over the past 15 years. Not only are our historical returns solid but they have very low historical correlation to other asset classes including equities, bonds, real estate, and even most hedge fund strategies. Also, in many instances of economic crisis, we are often negatively correlated with equities and other asset classes and frequently provide investors with strong positive returns. As an example, our flagship fund was up nearly 35% in 2008.

As our strategy trades exclusively in highly liquid futures and currency markets, Sunrise offers investors monthly liquidity (or better), full price and position transparency, and a level of strict regulatory oversight that few other investments offer.

Charles (Chuck) Johnson
Tano Capital

My name is Chuck Johnson, I founded Tano Capital in 2004 as in essence a family office for the founders of Franklin Templeton Investments ("FT"). I worked for Franklin Templeton from 1985 to 2003, and then left to set up our family office in order to take advantage of some global trends that I saw developing when I was running Templeton. I became intrigued with the obvious investment potential surrounding the emergence of India and China, as I had spent a lot of time in both places building up Franklin Templeton's local operations. It was very clear to me from ground zero that both economies were growing very rapidly, and that growth was going to strain the existing supply and demand balances in many global markets.

We run three groups within Tano Capital – one for private equity in Mainland China, another one for private equity in India and one that invests directly into commodities globally. The China group primarily uses our own proprietary capital, but we have sourced external capital for both our India private equity group and our hard assets commodity group.

Our first India Private Equity fund was $100 million, and we are currently in the process of raising a second fund which will should be about $150 million. A good chunk of that will be our internal capital. The hard assets hedge fund is about $85 million and our China investments stand at about $80 million today.

Patrick Wolff
Grandmaster Capital

I am Patrick Wolff, founder and managing member of Grandmaster Capital, a long/short equity hedge fund. We just launched this year on January 1st.

I spent five-and-a-half years before Grandmaster at Clarium Capital, which is a global macro hedge fund founded and run by Peter Thiel. Grandmaster is seeded with $50 million from Peter plus additional capital from me. You can think of us as a venture investment by Peter Thiel; we are hoping to be as successful as some of his other venture investments.

Grandmaster pursues a fundamentally based long/short equity strategy that also includes a macro perspective. I believe that over the last few decades long/short equity managers generally came to believe that their fundamental analysis did not have to include any consideration of the macro. The last five years have shown that is not true. So our strategy at Grandmaster is stock picking based on bottom-up fundamental analysis, where we also take into account our views on the macro in that analysis.

Rob Romero
Connective Capital

My name is Rob Romero from Connective Capital. We are a long/short equity hedge fund management company founded in 2003. Our mission is to deliver investors steady returns by exploiting our fundamental insights and information network in sectors undergoing disruption, such as technology, media, emerging energy & infrastructure and related industries. Our investment team has over 60 years of investment and operating experience in the technology sector

We manage $70m in three strategies: a market neutral technology fund, a short biased fund, and an emerging energy resources fund. Our market neutral fund, the first strategy we launched in 2003, has delivered uncorrelated compound returns over 13%, including positive performance in 2008 and during other challenging periods in the market.

As industry insiders, our skepticism about “breakthrough” new technologies or markets has made us especially effective on the short side, so in 2007 we launched a separate short bias fund. The fund is used by clients to hedge their long-biased investments with a 100% short beta investment, plus alpha. Our third fund is a long-biased emerging energy fund, started in 2007, during the last sharp oil price spike. The fund has done well though the 2008 energy collapse and recovery mostly by blending long investments with shorts in uneconomic energy technologies or businesses.


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Matthias Knab **I hear now from quite a few hedge fund managers that they are starting to manage the macro environment as well, in addition or on top of their respective strategy. Alissa, you are a hedge funds investor, what is your view on this trend?**

Alissa Douglas I agree that understanding and attempting to manage the macro environment have been at the forefront of recent discussions, both among allocators and hedge funds. In particular, I notice a shift in my discussions with equity long/short managers who typically have been bottom up, many of them are now wanting to add a macro component to their portfolio management usually by adjusting exposures more often.

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In the equity long/short space, I am curious to how managers making this shift will be successful, given this is not the area where they typically have an edge. Managers who I think do it well tend to have a framework, they manage the macro around very specific parameters, either price, interest rates, government action, idiosyncratic events, etc and then have a decision tree around how they will act when certain events happen.

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Many of the conversations I am having today are much more haphazard, with less of a plan, which concerns me. In my opinion, the best way these managers can manage the macro in their portfolio is to constantly be thinking about the environment and how a change would impact their companies and go from there. Overlaying exposure management on top of this to me seems like a challenging game.

Patrick Wolff This is a great question. Let me answer by making two distinctions. First, I believe there is a big difference between thinking about the macro as part of fundamental analysis versus macro trading. I told you before that I came from a hedge fund that did macro trading, however at my firm now we are not trying to predict what Dollar-Euro is going to do over the next month or how to interpret that the commitment of traders says speculators are net bullish or bearish and so on.

I do, however, have a set of fundamental macro views that are relevant to the framework of value investing, meaning I want to pay a dollar for something that is worth $1.50 and continues to compound its value.

For example, one view based on a lot of analysis I have done is I believe that the structure of China's economic growth is unsustainable. I think China is in the midst of and probably towards the end of an unsustainable investment boom, at the heart of which sits a gigantic property bubble. What does that now mean for our investment process? To start out, this means that I will be very cautious with any company whose profits depend upon the sort of indefinite life of China's investment boom.

For example, a couple of months ago I was looking at an Australian railroad company. It was recently taken public and sold by the Australian government. There is an old rule of thumb that when the government sells, you want to buy, right? This is because the government often has a strong incentive to make sure the public that buys into it does well, and oftentimes government run entities are not run terribly efficiently and so on. There were good reasons to think that this might be the case here as well. However, as I believe there is a real risk to the Chinese investment boom which will then affect the profits of this railroad, I decided not to pursue it as a potential investment. We simply want to mitigate risk by avoiding stocks that in our view are subject to increased risk.

I also have a specific a point of view about inflation in the United States. I do not believe we are in the cusp of some large risk of inflation, which has obvious implications for interest rate sensitive companies, for example. So for us, analyzing the macro is really part of our total analysis. Of course, sometimes the macro does not affect a stock at all, in our view, while at other occasions it will help me avoid things or may make me more bullish or bearish on certain stocks or trends.

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As a second distinction, the analysis of the macro can also reveal from time to time a thematic trade. Coming back to my view of the China theme, I am bearish on Chinese property companies and in particular about a basket of Hong Kong listed Mainland China property companies. These are companies that tend to be levered two, three, four times assets to equity. They tend to be valued a couple of times to book, and they are essentially land banks. This means they are buying, developing and then selling land in order to turn around and aggressively buy more land again. They are not owners of income generating properties.

We compare this to the U.S. home building sector for example, which peaked contrary to what many people think in the summer of 2005, over a year before the housing market rolled over and when the Fed was in the middle of its hiking program. We therefore believe that this is a good sector to short, but it is simply one short among many appropriately sized as part of the framework of our value investing approach.

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Charles Johnson

Our whole hard asset strategy at Tano was basically constructed around our view of what the world was going to look like over the next 10 or 20 years. We see it very much as a tale of two; not cities--but countries, almost where you have - I hate to say - the decline in standards of living in the West, versus the concomitant rise in the "East " of the developing markets.

The analysis of this now long-wave trend has been very interesting to us. We have been analyzing and investing with a global focus since the early 1980s. We watched with our own eyes some economies like Taiwan rocket from third world to like New York City in about 15 years, because they were able to harness quickly all the benefits of modern technology.

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We then started studying and analyzing from a historical perspective this development process in other countries like Japan, Taiwan, Singapore, Korea and Chile. All of these countries went into this hyper growth at different times and in different eras, but the paths they each took were fairly consistent when measured on parameters like growth of income per capita, savings, consumption, investment and so forth. The difference between those times and the situation we find ourselves in right now is that if you add up the populations of all the countries I just named - Japan, Chile, Singapore, Taiwan, and Korea – they represent collectively under 5% of the global population. If you add up the populations of the groups that are now experiencing the same hyper growth, you end up with over 50% of the planet (around 3 billion people) in the same hyper growth mode.

This will simply change the face of the world as we know it. Just look at commodities and hard assets. Oil consumption per capita in the U.S. is about 22 barrels per person per year. If you go to Russia, it is like maybe 7 barrels per person per year. In China it's about 2 and if you go to India it is 0.9. There is simply not enough oil in the ground to bring China up to US per capital levels of consumption. It just does not exist. It's a pretty simple, but pretty big (not to mention scary!!) idea. There is not enough "stuff" to go around, and it is the same equation with almost all commodities.

On top of that, you cannot forget to consider the massive amount of debt that is still outstanding in the aftermath of the financial crisis of 2008. In the U.S., if you look at our balance sheet, the amount of debt outstanding currently is three-and-a-half times the level of our Gross Domestic Product (GDP), and when you add in the off-balance sheet stuff it is almost double that. There is simply no way the government is going to tax or grow its way out of that problem. The only long-term solution available, and this is very clear, will be to devalue the currency through inflation.

This will happen not just in the U.S. We believe all paper currency is going to devalue versus hard assets or "stuff" - things like Wheat, Copper, Bauxite, Aluminum, whatever it is.

Charles Johnson

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The commodities situation is one piece of the puzzle. On top of that, you cannot forget to consider the massive amount of debt that is still outstanding in the aftermath of the financial crisis of 2008. In the U.S., if you look at our balance sheet, the amount of debt outstanding currently is three-and-a-half times the level of our Gross Domestic Product (GDP), and when you add in the off-balance sheet stuff it is almost double that. There is simply no way the government is going to tax or grow its way out of that problem. The only long-term solution available, and this is very clear, will be to devalue the currency through inflation.

This will happen not just in the U.S. We believe all paper currency is going to devalue versus hard assets or "stuff" - things like Wheat, Copper, Bauxite, Aluminum, whatever it is. We have all observed what is going on in the commodities market in the last 18 months, and we believe that we are in just the beginning rounds of a very ugly global re-balancing which will get increasingly volatile.

This leads me into another very specific theme that really keeps us up at night. We have a bit of a different view than Patrick on the China property bubble, but we agree that China is going to a be a difficult place soon because inflation has now gone into double digits and is percolating into food prices. Corn prices, soybean prices etc. have all exploded upwards as inventory levels continue to dwindle in the last couple of years. The real problem is that in a lot of countries like India, China etc. the bottom third of the population spends over a third of their meager incomes on food, and they simply cannot afford to pay a sudden 10-20% hike for food, so they eat less instead. Hungry bellies make for surly dispositions, and could lead to further global political instability. You can see this dynamic already at work in Tunisia, Egypt, Bahrain and Libya, and we believe there is much more to come on this front.

Chris Wolf

Matthias, to answer your question directly, a global macroeconomic perspective has always been central to our investment approach and the functioning of our firm. We see sector managers now attempting to glue-on a macro rationale to their ongoing activities, which is at least better than blinders.

From 2005, we have been in print on the dynamics and implications of the tectonic movement of wealth and resources from the developed G3 nations to the developing nations. During this time, we've seen Thomas Kuhn's 'paradigmatic shifts' applied to disparate economic phenomena. For our part, the sub-prime bubble was akin to a tornado on top of an ongoing wealth transfer earthquake, making each event vastly more complicated to separate out and understand.

One interesting framework was to look at the Panic of 1873, when Europe was in thrall to the relatively new popularity of commercial and personal mortgages (think sub-prime); the United States financial houses active with complicated and little-understood railroad guarantee bonds (think derivatives, CDOs, etc.), the new ascendancy of the US in basic manufacturing and its ability to deliver products to Europe at unheard of low costs (think China), thereby collapsing Europe's commodities markets. London bankers withheld funds and liquidity (think credit contraction), US financial houses went under (not too big to fail). Global markets fell into a prolonged "L" shape (no optimistic "V" or "W") for over four years, with the US recovering before Europe, which took far longer, and the world awakening to a new economic order. It is different every time, but we think that the unemployment drag in the US will continue to exacerbate full recovery and further surprise the overly optimistic.

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Chris Wolf

We like to invest in areas where we perceive the wind will be in our sails for some time to come. We continue to observe that China, while fraught with overheating risks, still impresses with its resilience. Vietnam, a mini-China of fifteen years ago, offers an even greater relative upside. Bringing prestige consumption products to these markets, like uniquely branded spirits products, is one example. Wine, as an advance guard to spirits consumption, has some amazing statistics in China. Ten years ago, the Chinese were adding metallic distillates to their 'health wine.' Now, virtually every international auction house that had the foresight to establish a presence in Hong Kong, experienced their best year ever in 2010. China is predicting it will consume one bottle of wine per year per person by 2014, which doesn't sound like a lot by nearby Napa Valley standards, until you realize we're talking about 1.3 billion bottles per year, and growing.

The irony, of course, is that China now has more billionaires than the US. Mao must be rolling in his grave.

Rob Romero

Energy prices (oil & gas), and their political ramifications are key macro trends that affect us. Let me give you three examples, one in electric grid power and two in transportation energy.

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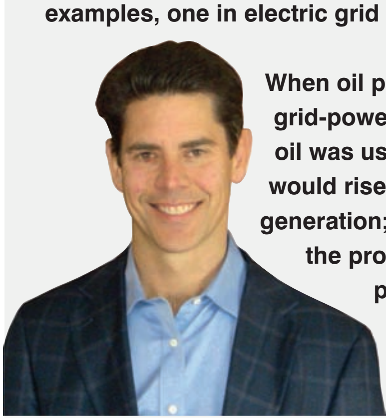

When oil prices go up quickly, there can be a big movement up in stocks of companies making grid-power generation, such as Wind, Solar, Geothermal etc equipment. This would make sense if oil was used to generate electricity, because then the demand for substitute forms of generation would rise. However, except in a few situations, crude oil is not the fossil fuel used for electricity generation; usually it's coal or natural gas. So there is really is not much of a connection between the profit stream and oil prices, yet some alternative energy stocks see a big macro / energy price movement.

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From an investment perspective, a fundamental view of alternative energy long and short opportunities is based on technology and commercial maturity, profitability & growth, or investor risk appetite and time horizon. However, when oil prices spike and start moving AE equities, we need to get more tactical. If the oil price move will persist for a while and carries big headlines, then long bets in high beta names can work near term. If there's a just short term supply disruption, little headline risk or the crude futures curve isn't affected, then we'd expect the effect to reverse, so we could short into an overreaction.

Natural Gas on the other hand is used for electricity generation, so it's a close substitute for many alternative energy sources. As its price moves down, and stays down (and we believe it will stay quite low, below $6/mmbtu for the foreseeable future), it has an impact on the profitability and prospects of alternative electricity generation, particularly higher-priced varieties.

In transportation, clearly oil prices directly impact the cost of operating land, sea and air vehicles: gasoline, diesel and Jet fuel are all made from crude oil. Two of the ways we can consider the impact of oil prices are one, they encourage alternative propulsion systems, such as electric (battery) but also Natural Gas and others. Two, there's an influence on government policy, who has an economic as well as strategic interest in reducing dependence on oil for transport.

Regarding alternative propulsion systems for transportation, a big market theme the last few years has been electric vehicles. Trouble is, even with high oil prices, it's tough to compete with gasoline as an energy-dense, easy to store-and-transport, and ubiquitous fuel for transportation. At this point, the economics of electric cars are very tough, given the high ($10-$15k) cost premium, convenience issues with the lack of charging infrastructure, and buyer uncertainty with the new technology. We think some key beneficiaries of high oil prices will be fuel-efficiency technologies. The inescapable logic of "fix the weakest link first" math suggests that if you take a car that gets 15mpg and move it to 30, you save twice as much fuel as (the more difficult and expensive) feat of shifting an efficient 30mpg car and making it 60. Fuel efficiency can be gained with known technology like small cars, turbo chargers, engine / cylinder management systems, start/stop on idle, and so forth.

Regarding government policy responses to moves in oil prices, a common response has been to promote energy-efficient mass transportation such as High-Speed passenger Rail (HSR). Our own state of California has an $10B initiative to link the northern and southern parts. One of China's powerful responses to the 2007 oil price spike was a big push into HSR, which became a $500B+ initiative, after a boost it received after the 2008 financial crisis. Investment wise, I'd bet on the Chinese HSR – there are no obstreperous cities with lawyers, environmental impacts, or voter bond approvals to deal with.

As we looked at the China Rail investment opportunity, we found some areas to stay away from. For example, because of the high costs of construction to be amortized, and the low level of passenger traffic, rail operators need to charge a very high price per ticket. From a American purchasing power perspective, the price of a Chinese HSR ticket, is like if a high speed train from San Francisco to LA for cost $800. Not a lot of takers. So Rail operators may be upside down for a while, not good investments. Looking at suppliers of equipment and services to this HSR initiative, we find two main rail stock providers, CNR and CSR. Trouble with them is that they are state owned entities (SOE), so profitability gets impacted by the need to "be nice" to the rail operators. This type of analysis disqualifies several other equipment makers.

The rail-related equities we like are ones whose prices are not directly controlled by the state or SOE, or where there's is an arm's length relationship between buyer and seller. We find companies like that for example, selling electronic power management systems or safety software, that have real technology, and the ability to maintain margins as revenues grow.

Jason Gerlach

As a systematic macro manager, we at Sunrise Capital have always monitored the global macro environment and used it to significantly shape our trading methodology. Having traded global equity, bond, currency and commodity markets since the 1970's, our team is keenly aware of the powerful effect global macro interactions and events can have on markets. We are continually calibrating our trading models to try and capture the often tremendous long term profit opportunities that global macro developments can provide as they drive prices upward and downward in sustained bursts of momentum.

For a range of reasons – diversification, liquidity, and opportunities for profit in a wide range of markets and market environments – we strongly believe that every investor needs to have macro strategies in their portfolios at all times as a compliment to more traditional long equity and bond-type strategies.

Matthias Knab

All of you here are based near or even in Silicon Valley. Do we have a bubble in technology at the moment, or is one coming? I have heard anecdotal evidence of the traffic there becoming really heaving, office buildings rent out quickly and easily at good prices, and in Palo Alto hairdressers people started to talk about technology stocks again...

Patrick Wolff

It is very striking to me that there is a complete dichotomy between the very large technology companies with very attractive business models and mature growth that seem to be very attractively priced on the one hand. We can all debate the relative merits of Microsoft versus Cisco versus Intel versus Hewlett Packard or Oracle and so on, but I personally cannot see any bubble here. Even if you look at a stock like Apple, you can argue that the history of consumer hardware suggests that eventually prices and margins collapse, but Apple is a heck of a brand and it has been growing like crazy. I have a similar view on Google - rational people can debate their prospects and the relative evaluation, but you cannot seriously talk about a bubble here.

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Then on the other hand we see smaller companies, often software companies, or software as a service or cloud computing companies and so forth. They oftentimes have market caps of $1, $2 or $3 billion, and when I look at these companies I find them impossible to understand. To start out, their "earnings" do not take account of stock options, which I find hilarious. My answer to that is if stock options are not an expense I would like a million please, because obviously, they don't cost you anything.

But even without stock options, they are often trading at 30, 40, 50, 60 times earnings while they are not growing organically but often buy in their growth. It is really just amazing.

Another point I want to mention as a resident of this area is the tremendous competition for talent in Silicon Valley. Anyone who is in the job market between Google and Facebook can tell you about the bidding wars that are going on. There is clearly another sort of mispricing - not that these are not smart, capable people who have a lot of value to add, but in my view the price being attached to their service is too high relative to the marginal value that they bring.

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So, I find this a very strange situation in technology. The majority of market capitalization does not seem to be in a bubble at all, but there is this subset that seems extremely frothy.

Alissa Douglas

Well, it is true my commute from San Francisco to Palo Alto has gotten worse lately! I definitely agree that we are seeing a trend of frothiness in certain private companies and this has extended to certain sectors in the public market as well. However, if we are in a bubble, I think that we could be in the beginning stages.

If you look at venture capital, we have just seen a decade of sub-par returns and investor demand is on the low side. We have seen an interesting transition from large VCs to smaller angel investors raising funds which could be a trend to watch. If the frothiness continues, I believe we could see inflows into VC and a much larger bubble form.

Charles Johnson

I agree with Patrick's view on the bubble and the two camps of companies. You see firms like Microsoft on the one hand that are obviously dirt cheap, and then on the other side there are these other companies you hear about like Facebook, Groupon and so forth with all these crazy whisper valuations, it is certainly plausible that these frothy valuations are indicative of bubbles.

On a broader scale, with QE2 and interest rates in this country at almost zero, our view is that the government has in essence deliberately created a reflating bubble. This appears to be the current ongoing policy at the Federal Reserve. In order to stave off systemic crashes, the Fed floods the market with excess liquidity which inevitably seems to percolate into new and different asset classes over time. This, in turn, causes further ongoing asset bubbles, which eventually require further bailouts. The last three have been the dot com era, real estate and now commodities. So you have the surreal environment where both demand and liquidity are exploding at the same time for commodities. The billion dollar question is what is end game? The way we see it, the only possible outcome is the continued gradual debasement in the real purchasing power of all paper currency. That's why we want to stick with hard assets that won't lose their purchasing power in an environment where the unit of measurement, paper currency, devalues.

Chris Wolf

A bubble in Silicon Valley? There was a bumper sticker I saw last week while driving through a particularly dense enclave of social media startups that made me laugh. It said: "God, Please Give Me Another Bubble." I think the VCs are getting their wish and recognize that bubbles are fun and certainly better than no bubbles.

Jason Gerlach

While we at Sunrise Capital can't tell you for sure whether we are in the midst of another technology bubble, we can tell you over the past couple of years, equities certainly have demonstrated several significant bursts of upward price momentum that have made for good trading opportunities.

More generally speaking, because we are systematic macro traders, bubbles are one of the market phenomena that we often trade quite effectively. The reason for this is that bubbles have a habit of creating sustained market momentum, typically across several market sectors. An issue investors should therefore consider is how they are preparing for whatever bubble is at hand. Whether a bubble is tech stock driven, commodity driven, or otherwise, the question any investor has to ask is whether their portfolio is set-up to capture the upside of the bubble and just as importantly, whether the portfolio has a component that will capture the downward momentum opportunities created by a bubble's inevitable burst?

In recent years, we have seen the bubble pattern over and over again and it typically makes for excellent profit opportunities for systematic macro traders such as Sunrise. Indeed, when bubbles burst, they typically take many markets down with them in highly correlated, sharply downward price patterns that sustain themselves for significant periods of time. Traded skillfully, these downward price patterns can yield significant profits which can help offset the losses other portions of an investor's portfolio may suffer during such "bursting" events.

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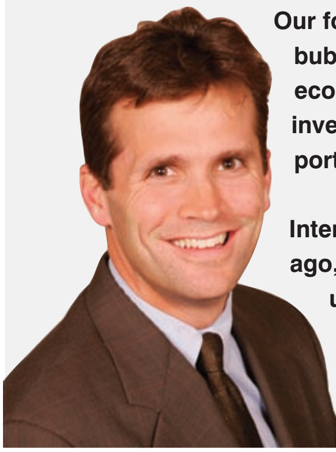

Our focus is to give ourselves just as much of a chance to profit from the bursting of a market bubble as we have from the inflation of a bubble and therefore, help our investors in all sorts of economic environments. By trading both sides of a bubble, we have historically given our investors the benefit of non-correlated returns that over the long haul provide an enhanced portfolio Sharpe ratio and a bit of comfort during market downturns.

Interestingly, one of our most significant trading innovations was implemented just a few months ago, something we call the Market Environment Index. It is in a sense a "bubble detector"-- and uses predictive analytics to warn us that a strong, multi-market, bullish trend is at risk for a swift, violent reversal.

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Charles Johnson

I believe the biggest bubble today is actually in Currency. Paper currency is melting down. For example, if you look at the value of Gold denominated in Yen, or Swiss Francs, or British Pounds, or US Dollars for that matter, it actually does not matter what currency you pick as your base; from about 2000 to today Gold has appreciated against every one of them. It is a very weird situation where the actual "unit of measurement" used to price everything else is melting down in terms of its own intrinsic value. All other commodities are appreciating on a nominal basis at different rates, and it leads to a very confusing macro environment.

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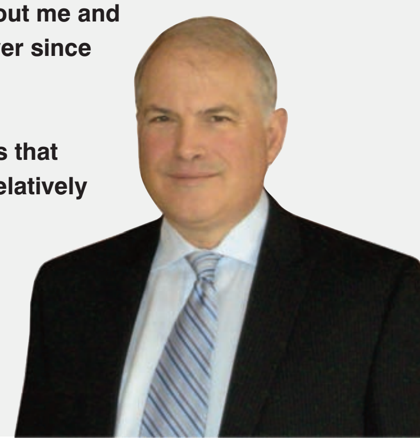
The other major trend is that interest rates have only fallen since the early 1980s. I remember when I started in this business in 1981, the long bond was yielding about 14% per cent. I remember this only too well as I was absolutely positive that long rates had peaked, and shorting the long bond seemed to me a dead cinch lock. So I shorted the long bond at 14% yield and it promptly went to a 16% yield, wiping out me and my partners along the way. 16% was indeed the peak, and rates have been falling ever since to this day in 2011.

Rates have steadily fallen since 1982. That is now almost 30 years ago, which means that almost everyone currently active in finance have worked their entire careers in the relatively benign environment of continuously falling rates.

I wonder how everyone will react when faced with continuously rising rates for the first time in their careers. Our sense is that at some point soon, things are going to be really messy out there.

Charles Johnson



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That means that my entire career from then to now has been spent in a declining rate environment. Rates have steadily fallen since 1982. That is now almost 30 years ago, which means that almost everyone currently active in finance have worked their entire careers in the relatively benign environment of continuously falling rates. Declining rates are great, cap rates keep getting lower, discount rates keep getting lower, NPV's keep growing, financing is cheap and available. I wonder how everyone will react when faced with continuously rising rates for the first time in their careers. Our sense is that at some point soon, things are going to be really messy out there.

Patrick Wolff

Chuck, regarding currencies and gold you described it as a bubble for currencies where every currency has gone down relative to gold. To me that sounds like a bubble in gold. Gold is the best performing asset class in the last decade. Long gold is the most crowded trade I have ever seen in my life. At this point, it is driven by investor demand. Even though with an ounce of gold you cannot buy food, you cannot pay for services or submit your taxes – you simply have to exchange that piece of gold for the money that you need to do all those things, just as you would any other asset.

However, people feel that gold is very safe now because it has being going up, again, the best performing asset class in the last decade! I personally would be very cautious about thinking that the best performing asset class in the last decade will be the best performing asset class in the next decade.

Charles Johnson

I agree; long gold appears to be a very crowded trade, no question. Basically, what we do is to study individual commodities in depth, and we try to ignore all the noise and stick to the facts of each situation. With Gold, we found there are actually a lot of ways to play that theme, and while there is certainly a lot of “noise” in the financial press saying the trade is crowded on the long side, if you dig a little, a different picture emerges. If you look at Newmont Mining for example, their stock price is about the same price it was in 2006, in the low 50s. They had at that time about 92 million ounces of gold reserves in the ground. Their lifting cost was about $250 and you could sell the gold at about $500, so your margin was about $250 per ounce.

Today, you can buy Newmont at the exact same price with gold trading at $1400 per ounce. The lifting cost has increased because it takes energy to dig gold out of the ground, and the energy piece has gotten more expensive but it has not compounded anywhere near what the price of gold has. Newmont now clears about $850 per ounce after lifting costs instead of the $250 per ounce it did in 2006. That makes it a roughly 3.5 times better opportunity than it was in 2006. That stock is certainly not a “bubble”, but increasingly to us looks like a smart way to play one.

Again, I agree, on the surface the long gold trade looks really crowded, but if you dig deeper, while the IMF was selling up until recently, central banks have all become net buyers of gold since about 2007.

India ramped up from under 1% to about 7% of their foreign exchange reserves. China’s central bank gold holdings are still under 2% of their total reserves, and the rest is held in paper currencies, which they cannot be too happy about. The Western Central banks all own a lot of gold as a percentage if their foreign exchange reserves, and the Asian central banks all own a lot of paper currencies and very little gold as foreign exchange reserves.

Annual production of gold amounts to some 2,300 metric tons per year, versus the above ground inventory of approximately 150,000 metric tons. Gold held as central bank reserves is estimated to be some 30,000 metric tons, or about 20% of the visible supply, and most of that already resides with the Western central banks. If the BRIC countries decide to rebalance their gold holdings to anything remotely approaching Western levels, gold will be well bid for the foreseeable future.

It is the same commodity demand theme we spoke of earlier, and again there is just not enough “stuff” to go around. What we are experiencing is the Bonfire of the Currencies, and trying to value gold based upon its nominal dollar price is deceptive and misleading, because it is “notional” and not “real” prices you are working with. The unit of measurement is changing as we speak. How can you measure something when your yardstick becomes a moving target, and won’t sit still? Our overarching thesis remains that all paper currencies will continue to decline in terms of purchasing power, and will keep declining versus all “hard” assets for the foreseeable future. It’s the only way out for all the over-borrowed and over-burdened governments out there, and reflation is the one and only time honored tried and true solution.

Rob Romero

We’ve seen tech bubbles before, and we’ve learned just how hard it is to time them. In 1996 Greenspan made his irrational exuberance speech, we all agreed with him and yet we had another four years to go, so it’s a dangerous game to call the top. So we don’t really play that game. But we do find opportunities in bubbles in sub-sectors of technology.

Some bubbles have already popped. Alternative energy is one, including solar, wind, biofuels, etc, that bubble popped, because there was a day of reckoning when capacity ran way past demand, prices plunged and many companies suffered a lot.

Some bubbles make up their own metrics, so they are tougher to pop. When a sector is valued on the basis of pageviews or eyeballs or ear lobes or how many friends are in a social network, these stocks can keep going. Facebook stock could keep going and going, if users is the metric, and you are no judged on P&L, the stock can just keep going as the user counts hits billion, two billion etc. Not clear what the day of reckoning is.

There may be a bubble in the smartphone / tablet sector. Smartphones are growing like crazy, and a lot of people compete to build them. The business model for many tablet makers is basically design a tablet that looks like the others, get the operating system from Google, buy the needed chips and have a Taiwanese ODM make it for you. The problem is that we will soon have three times the number

Android tablets manufactured as iPad this year, but I am telling you that number of tablets are not going to be sold. iPad is still going to be 70% of the market in 2011, and all these guys who think they alone will take the 30% non-iPad sales are in for a bad surprise, their reckoning day.

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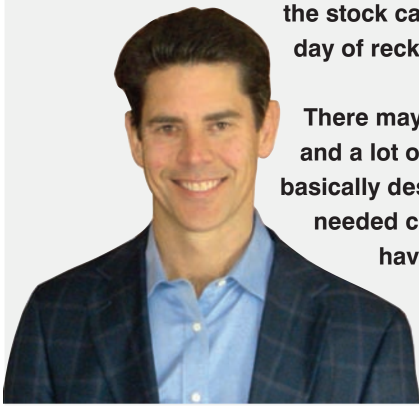

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Rob Romero

Matthias Knab **Tell me more about innovation and new products at your own firm's level?**

Steve Hotovec For us at Alchemy one of the key questions was; How does one harness the powerful benefits of alternative investments without compromising liquidity or capital control? Alternative investments are complex to understand, integrate and streamline for both manager and investor. The use of hedging, derivatives, and other investment techniques pose a challenge for investors, managers, clearing firms and custodians, but therein lies the great opportunity. To make the complex simple.

I would say that demand for talented alternatives managers has never been higher, but there is still a lot of cash sitting on the sideline waiting for the "all is clear" bell. This capital should find its way to talented managers in new and improved structures that benefit the investor and manager alike.

We believe that the multiple layers of fund structures are going to be peeled away to expose the core, which is the account. In any fund, fund structure or investment vehicle, the account is where securities and cash positions are held. When investors are able to maintain control over their securities and cash positions, they naturally have more comfort. Alchemy has created a platform which makes the best use of technology, infrastructure and innovation to simplify the complexities of integrating and streamlining alternative investments for both manager and investor.

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Keith Sharkey

From an innovation standpoint, we have leveraged technology to adapt to a constantly changing regulatory environment as well as evolving reporting standards, it has become imperative to maintain a technology structure which is flexible enough to meet (and in some cases anticipate) the demands of investors, managers and other third parties.

A key aspect of this involves transparency of information. We need to maintain the ability to provide investors with the appropriate level of detail on a timely basis, without giving away too much. This protects investment managers from increased competition or investors analyzing every move the manager makes. The challenge as a data consolidator and reporting agent, is that transparency means different things to different industry participants. We have "bought and built" a reporting platform and environment which is robust enough to support our growing client base, yet easily customizable in order to satisfy all constituents.

Innovations in technology have enhanced our business at Kaufman Rossin Fund Services, for example we have utilized cloud computing and web-based applications to speed up the reporting process. This affords us more time to work with each manager and their investors to understand their agreed upon level of transparency and comply with regulatory and compliance reporting requirements.

Chris Wolf

We think that the alternatives industry is now in an advanced stage of maturation. If you look at who is actually getting the bulk of the new assets or asset shifts, most of the money is probably going to the largest 2% of hedge funds out there. That is true in the funds of funds market as well. The pace of providing investor solutions in alternatives has definitely slowed down.

The result is that forward-looking investment fund managers are seeking new solutions and new markets for their investors. Both institutional and retail investors are demanding much more transparency and daily liquidity, as well as lower fees and minimums from hedge fund managers. One way alternative funds are adapting to this demand is starting funds under the 40 Act structure, in other words – absolute return mutual funds and absolute return mutual funds of funds.

Alternatives mutual funds have been the fastest growing area in the mutual fund industry by far over the last five years, outpacing even commodities funds, with none of the asset loss suffered by 95% of the rest of the industry. Assets in alternatives mutual funds grew during 2006-2008 at a 30% annualized compound growth, and since then have increased in 2009-2010 to a rate of 50-55% annualized growth.

Whitepapers by Goldman, SEI and others have come out in the past year recommending that every portfolio needs an allocation to alternatives to be actually diversified. Absolute return mutual funds are making this possible not only for pension funds and endowments, but also, for the first time ever, for average retail investors as well. In fact, most new asset flows into this industry will be coming from the retail market and small and mid-sized institutions that value daily liquidity and pricing, uncorrelated asset classes, volatility reduction, and true portfolio management flexibility.

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The historical adoption curves that occurred early in the alternatives area for funds of funds suggests this will be an ideal and attractive vehicle for the vast majority of investors, notably including those who have been hurt by the ongoing volatility in the equity and real estate markets, and those looking for a prudent and cost effective entry into an attractive sector.

Matthias Knab **What is the growth in terms of assets? What is the trend, how is or has this asset base been evolving over time?**

Chris Wolf The assets of alternative mutual funds in the US now stand at just over $60 billion, and continue to grow rapidly. If you look at UCITS, which is attempting to solve the same problem somewhat differently overseas, assets there were approximately $100 billion 18 months ago, and are now nearly $200 billion. The growth rates are accelerating.

Alissa Douglas I would also note as you have mentioned the US hedge fund market has matured significantly, and now other parts of the world such as Asia are starting to mature. If you wanted to put together a portfolio of hedge funds in Asia five years ago, it would have been challenging to do if you wanted strategy diversification and the same operational standards as you had in the US. I believe you are starting to see a reasonable number of hedge fund managers in Asia with high quality investment philosophy, strategy, edge, risk controls that allow you to put together a viable Asian portfolio.

Jason Gerlach Let me comment on two trends, the first being really a sort of new twist on an old concept – diversification. One of our mantras at Sunrise is that diversification is the only thing the market gives you for free and that therefore, an investor should take as much advantage of diversification as possible. The market seems to be catching on to this mantra.

In the old days, diversification was essentially having U.S. stocks and U.S. bonds in a portfolio and hoping for the best. Later, diversification evolved to the point that one might own stocks of both U.S. firms and foreign firms along with their bond portfolio. Today, successful managers and successful investors are blowing far past these traditional takes on diversification and taking a much more stratified approach that achieves diversification through different asset classes, different markets, different global regions, different strategies, different managers, and even different investment time frames.

We take a rigorous, four-step approach to diversification to ensure that we are giving our investors the best possible chance at success. Specifically, we diversify by global sector, by global market within each sector, by time frame with in each global market, and by technique within all of these contexts. In our view, this is the only way to achieve sustained, long term trading success in today’s constantly evolving global market environment.

The second trend we are seeing is an increased democratization of the alternative investment industry both here in the U.S. and globally. Just as in the 1990’s when with technological innovation people were suddenly able to trade a wide range of stocks by themselves, online, at a very low cost, today, we are seeing an emergence of global platforms, alternative mutual funds and other innovations that are giving more and more people low cost access to a range of alternative strategies that go far beyond stocks and bonds. We believe this is a great development. After all, why shouldn't all investors have access to the best investment strategies and brightest investment talent and have an opportunity to diversify their portfolios in ways that they previously did not have? Great investment opportunities should not be restricted to the uber-rich, the powerful and the connected.

Matthias Knab **We mentioned that a lot of money is going into the largest hedge funds, which of course get bigger and bigger. Alissa, as a hedge fund investor, what is your view on this dynamic?**

Alissa Douglas I believe the financial landscape is changing. As the banks let go of their prop desks, these funds are becoming the investment banks of the future. The so-called mega funds can serve a purpose in a portfolio. They get good deal flow, have strong operations and attract high quality investment professionals. However, given their size, they are limited in their investment scope and many of the funds are extremely correlated.

The so-called mega funds can serve a purpose in a portfolio. They get good deal flow, have strong operations and attract high quality investment professionals. However, given their size, they are limited in their investment scope and many of the funds are extremely correlated.

Another consequence of this asset concentration with the largest funds is that it has actually changed the due diligence process. As hedge funds have gone from $1 billion to $5 billion and then to $25 billion, investors have become a kind of commodity and sometimes you can feel like you are sitting on a conveyor belt.

It used to be that I could go and talk to the portfolio manager, and have really good thoughtful discussions with them from meeting one. Now, I often feel the answers to our questions are often less deep and more canned. This is prolonging our due diligence period, because we are having to go back until we are get the thoughtful answers that we need to make the investment decision.

We are excited about the opportunities to invest again in some smaller funds. Since 2010 we have seen some great people spinning out of well-known funds – these are managers with almost a decade of portfolio management experience under their belts.

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Alissa Douglas

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For the first time in our firm's history, we spent a lot of time getting to know funds that are sub $500 million. So at the same time where the mega hedge funds can grow to $25 billion and beyond, really exciting opportunities come up with good pedigree managers within smaller funds.

Chris Wolf

Extending on Alissa's observations, we have always interacted with our underlying investment managers, and even if we parted ways we have often continued our discussions and exchanged ongoing macroeconomic views.

That level of dialogue takes times and depth. The reward is perspective.

On the Monday afternoon of the crash of 1987, as a young investment banker at Kidder, Peabody, I rememberwalking into the office of Al Gordon, the firm's Chairman Emeritus (he died a couple of years ago at 107 years old), and I asked him, "Al, what do we do now that the markets have dropped 22%?" He was very calm, he had a phone in each wizened hand, and he said "I'm buying." Another old banker, with a wry smile and a sense of irony, added to that view with the observation that "at this rate of collapse, there won't be a lot left by Friday anyway, so no use griping about the pain."

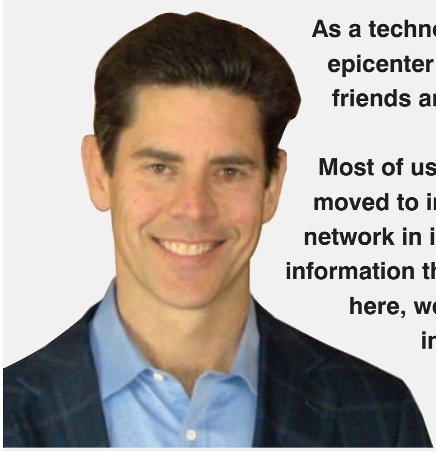
It's like mountain climbing. Will your investment managers keep calm and pull you over the ridge to safety. When I was descending Denali (Mt. McKinley), it was disconcerting the number of people who were panicking and doing all manner of stupid things in a tough storm.

Matthias Knab

Let's touch briefly on the West Coast – what is special about being based here?

Rob Romero

As a technology fund, this is a great place to be based. Not only are we ourselves in the epicenter of technology in Palo Alto, California with access to nearby companies, but great friends and contacts in Silicon Valley.



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Most of us went to college and grad school here, spent time in the tech industry and then moved to investment management after I started the firm in 2003. This means we have a large network in industry who can help us with trends, cost, technology and business model, information that is publically available, but not obvious to wall street or other investors. Being here, we do not have to resort to sell-side research or paid expert networks for access to information.

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Chris Wolf

The action is here on the West Coast. It's the gateway, not only to innovation in providing investor solutions but also, in a very real way, to both the Far East and the Middle East, which exponentially increases access to new investment opportunities and productive thinking.

Keith Sharkey

When we opened our West Coast office last year, we already had an existing client base here. These were established funds with a lot of credibility and a long track record. These clients and other influencers believed that there was an opportunity here for an established administrator who maintains very high standards and personal service delivered by experienced fund accountants. In addition, during the last couple of years we have seen an increasing number of spin-outs of high pedigreed managers setting up their own shops, which further increases the opportunity for us.

From a talent and infrastructure perspective, there are a tremendous number of professionals that make the West Coast an excellent place to do business. There are many international law firms that have created specialized departments to represent clients in the Alternative Investment markets as well as smaller firms that have built a practice catering to this industry. It is also helpful that most of the prime brokers are represented on the West Coast as well. Most importantly there and many quality managers who attract investors from around the world. We are slowly seeing the closing of the supply and demand gap which has existed between emerging managers and investors since the credit crisis.

One thing we have learned about the West Coast is that the marketplace is geographically fractured – you have the San Francisco financial center with the entire Bay Area, the Los Angeles area which is very spread out and diverse and San Diego which is also represented by some significant high quality managers. Recently I attended an event sponsored by the newly created California Hedge Fund Association, that is trying to unify the large West Coast Alternative Investment Market and bring together managers, services providers and investors. We are very excited to be part of the continued development and expansion of the West Coast Alternative Investment Community.

There are also pockets of alternative activity in Oregon and Washington. We are also seeing increased activity of newly formed alternative investment funds in Washington and Oregon.

Jason Gerlach

There are advantages and disadvantages to being based in California. In fact, we often joke in our shop that if we were in New York or London we would probably be three times the size in terms of AUM but probably one-third as good as we are at trading. Why? Because while it may be easier to raise assets when located in the "capitals of capital" so to speak, those locations are also the source of a lot of market noise and trading groupthink that we strive to ignore and avoid whenever possible.

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Sunrise launched in San Diego, has grown in San Diego, and keeps its roots firmly in San Diego. As a result, in many ways we are our own island of trading philosophy and technique and bear no relationship to the "schools" of systematic macro trading one might find in and around London, New York, or Chicago for example. Instead, our strategy is its own and trades much differently than those of our peers in the systematic macro space. This we believe has served us and our investors very well and will continue to do so as AUM continues to concentrate around a few global capital centers.

The downside of being in a place like San Diego is that there is a lot more travel involved in order to connect with capital sources and this can put pressure on Sunrise's staff and certainly increase the cost of marketing and client relations. For this reason, since I joined Sunrise back in 2008, one of the things I have focused on is getting a better grasp on who from the alternative investment space is here in California and establish more collaboration amongst California-based managers, service providers and allocators so that perhaps, we can create our own "capital center" and bring more aspects of the business to California.

To this end, I and people from several other California hedge funds last fall launched the California Hedge Fund Association or CHFA. Our goal was to bring people together and to create awareness of the great alternative investment opportunities here in California amongst those back East in the U.S., in Europe, and even beyond. We have some great managers here in California, a very solid base of service providers, and a lot of capital sources as well and hopefully, CHFA will increase the synergy among them and make California an even more desirable place for the alternative investment industry in the future.

I invite everyone here at the Roundtable and anyone who reads this transcript to get involved in the CHFA. We are on the web at www.calhedgefund.org and we also have a group on LinkedIn that I moderate regularly. Our inaugural event last fall hosted over 400 people in Los Angeles and since then, we've had two well-attended events in San Francisco and Orange County. Our next events are set for April 19 in Los Angeles and June 28 in San Francisco. The April event in Los Angeles event will be a panel of top managers moderated by James Crystal of Rockefeller Financial. The June event in San Francisco will be headlined by Gary Zimmerman of the Federal Reserve Bank of San Francisco.

Patrick Wolff

I personally love being outside the New York group think. I think there is a more independent streak that comes from being outside the New York/London bubble. Of course we have our own community here, but at the same time the sense I get is that while people talk and share ideas, there is much less herding into certain crowded ideas. That is something I quite like.

I agree that the travel is a little bit of a downer. I also agree that one of the right things to do is creating more groups and social organizations. Last year I teamed up with a colleague – who now works at Grandmaster, by the way – to organize a charity investor conference in San Francisco. The conference is very much in the mold of the Ira Sohn Conference in New York and in fact is affiliated with it. We held our first conference last year. We are holding it again this year. We have just a terrific speaker list – people like Jeff Ubben, Mitch Julis, John Burbank, Joe Jolson: just a terrific speaker list. It is going to be in October and it is to benefit education.

Matthias Knab

Keith, what do you observe when it comes to the formation of new funds here on the West Coat?

Keith Sharkey

We are seeing many new startups coming to market with a lower capital base looking to attract the spectrum of investors based upon their track records and pedigrees. These emerging managers are not new to asset management but many are new to running a business and that requires us to provide significant guidance regarding the operational nuts and bolts. In the past, the majority of West Coast managers were in the long/short equity category and had standalone Limited Partnership structures. Today we are seeing managers who are breaking that mold with unique strategies hoping to appeal to a more discerning investor and investment appetite.

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In terms of strategies, we have seen funds that invest in the traditional asset classes, commodity pools, distressed assets, emerging markets and continued growth in private equity. Whereas before emerging markets used to mean Latin America, Russia, China or India, managers today consider places such as Southeast Asia, former Eastern Block countries, Africa and the Middle East, as their new focus on emerging markets continues to expand.

Keith Sharkey

These emerging managers realize that they need to put into place an institutional quality infrastructure allowing them to grow beyond the "friends and family" investor category. This involves a huge time commitment, a concrete business plan, and flexible fee structures at the start up phase. The process of engaging their service providers on a fixed budget is often challenging but making the right selections for these key business partners who can offer scale and flexibility as the fund grows is crucial to the success of the business.

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We also see funds focusing on real estate but as compared to Florida for example where we have our headquarters it is still a small part of the West Coast market. Real estate through private equity funds are seeing interest by investors from places such as the Middle East and Asia who are looking to capitalize on appreciation and tax rates in the United States. The West Coast has a lot to offer to potential investors with the continued growth and diversity of managers and a wealth of highly trained professionals and service providers.