OPALESQUE

Opalesque Round Table Series '11

SINGAPORE

Editor's Note

We are in the middle of the third huge wave of wealth creation over the last 150 years. If you look back, a number of European family offices were formed in the first part of the 19th century. The great American family offices were formed in the later parts of the 19th and early parts of the 20th century. For the time being and the foreseeable future, the big capital market flows are in and to Asia, which together with the continued industrialization of the region will eventually lead to the founding of some of the great family offices and private wealth domains in Asia.

Singapore wins battle to spearhead Asian wealth management

Apart from becoming an investment hub, Singapore has been increasingly positioning its financial industry as a wealth management center. Hinting at the age-old competition between Hong Kong and Singapore, the participants of the 2011 Opalesque Singapore Roundtable concluded "that battle has been won as Hong Kong's government does not seem to have focused on that sector."

Asian ultra high net worth individuals are typically first generation wealth who made their money as entrepreneurs. While most of the second or third generation wealth prefer to let the invested money just pay their dividend cheque, this Roundtable explains how Asia's rich continue to create wealth and details their idiosyncratic investment preferences whose understanding is vital for anyone doing business in the region. In addition, the Roundtable examines what went wrong in Asia's private banking boom and where the assets are concentrating right now.

A fertile ground for hedge fund investing – Singapore finalizes hedge fund regulations

Asia is a very fertile ground for hedge fund investing. More than ever, hedge fund investors today have a larger and better pool to choose from, and the quality of the new launches has been very good as well. Another remarkable development has been the emergence of more non-equity related strategies.

Statistically there are more funds investing in Asia today than ever before. The number of funds investing in Asia is now in the order of about 1,200 - about 100 more than before the crisis.

Singapore's regulator, the MAS, went through a lengthy consultation process regarding future regulation. The new regulation is scheduled to be introduced in the second half of this year and will be centered around competency, capital requirements, residency and governance.

In 2010, around 95 hedge funds were set up in 2010 in Asia. 65 or 67 of those were in Hong Kong, and about 15 in Singapore. The lower figure for Singapore may possibly be due to the uncertainty surrounding Singapore's future regulation. Now as there is more certainty about regulation, Singapore may again grow proportionally compared to Hong Kong.

The 2011 Opalesque Singapore Roundtable was sponsored by Custom House Group and took place March 31st 2011 in their Singapore office with:
Steve Diggle, Founder, Vulpes Investment Management
Peter Douglas, Founder, GFIA
Bryan Goh, Head of Alternatives, DBS Bank
Peter Gibson, CEO, HMP Dynasty Family Wealth
Daryl Liew, Head Portfolio Management, Reyl Singapore
Brad McCarthy, Managing Director, Permal
Ralph Chicktong, Managing Director, Custom House Singapore

The Roundtable discussion also highlights:

- **Asia's rich invest in Asia: what steers wealthy investors away from Europe and America**
- **How incentives for investment banks and Asian private banks became at odds with their clients and why hedge funds and independent wealth boutiques benefit**
- **How to differentiate between the "opportunist" hedge fund manager and a true maverick**
- **How investor behavior contributes to high correlations of Asian managers**
- **Why due diligence in Asia is generally much easier than in the U.S.**
- **Words of warnings: How to avoid too much directional risk in Asia**

Enjoy "listening in" to the Opalesque 2011 Singapore Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Cover Photo: Singapore Casino Hotel at Marina Bay Sands

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Ralph Chicktong, Peter Douglas, Peter Gibson, Daryl Liew, Brad McCarthy, Steve Diggle, Bryan Goh

Opalesque Singapore Roundtable Sponsor

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Introduction

Bryan Goh
DBS Bank

I am Bryan Goh. I am with DBS Bank which hired me to develop the alternative investments platform at the private bank. Asian investors tend to have “boom and bust” portfolios, usually very levered with a lot of short volatility exposure. The bank’s strategy is to offer more diversification, and - more stable and sustainable portfolio options through the use of alternatives, which is where I come in.

Daryl Liew
Reyl Singapore

I am Daryl Liew, Senior Portfolio Manager of Reyl Singapore. Based in Geneva, with presence also in Paris and Luxembourg, the Reyl bank has three separate, yet complementary, business lines: wealth management, asset management, and private office services. The Reyl Singapore office was set-up last year and I joined in November 2010, with the focus to add Asian ideas into the clients’ portfolios. I manage the Asian portfolios for Asian clients, and I feed ideas from the Asian region back to the head office in Geneva for possible inclusion in our other portfolios. One of my other specific tasks is to lookout for and meet up with interesting Asian hedge fund managers that we could eventually invest in.

Ralph Chicktong
Custom House Singapore

My name is Ralph Chicktong. I am Managing Director of Custom House Singapore. Custom House has a network of offices globally providing fund formation and fund administration services. We have been in Singapore for about three-and-a-half years. We provide a full set of services to clients in our time zone and also provide processing services for Custom House offshore offices.

Peter Douglas
GFIA

I am the principal of GFIA, which I started in 1998; we are primarily a fund research firm. I am also the Asia-based director of CAIA, which is the professional designation for the alternative investment management industry.

GFIA researches alpha-generating managers investing in public markets, (primarily hedge funds and unconstrained long strategies) in Asia including Australia, India, China, and Japan, and in the other emerging markets in Latin America and EMEA. We have a strong preference for boutiques over asset gatherers, and for indigenous managers.

We also have a wealth management business where we help Stephen Diggle’s family, and other family clients, managing their personal investments and philanthropic activities.

Steve Diggle
Artradis

I am one of the two co-founders of Artradis, a business we had been running here out of Singapore for nine-and-a-half years. As of midnight today, we are actually closing the firm and I will focus my efforts to launch a new firm, I will get into more details about that one later.

Artradis was best known for the Barracuda and AB2 Funds, which were long volatility funds that grew to have AUM over $4.5 billion at the height of the financial bubble. We did very well when that bubble collapsed, but business contracted substantially after that.

Running that hedge fund worked out very well for us and for our investors. We were focusing on an unpopular strategy, which was being long volatility in an area that was considered very bullish and very safe. It was considered to be a one-way bet. It was also a very interesting strategy to run from a timing perspective, because we had most of our inflows when the asset we were buying, volatility, was very unpopular and consequently very cheap. That worked out extremely well for our investors. As we grew most of our assets during the bull market, volatility prices continued to fall and became much cheaper. As a consequence, our long volatility funds got very big right at the bottom of the cycle, which may be a unique event within the hedge fund or even the total asset management universe in Asia. When the bubble burst, we made a great deal of money both in quantitative terms due to our mere size, but also in terms of percentage returns.

The last two years have been unsatisfactory and my partner and I decided to split and do other things. Therefore, actually as of midnight tonight I cease to be one of the two founders of Artradis and become the sole founder of a new company called Vulpes Investment Management where we will launch a volatility fund that will look remarkably similar to the old Barracuda Fund.

Hopefully, we will have the new fund up and running on May 1st. Apart from that, I have been working with Peter Douglas to diversify a bit more of my own portfolio, which was not hard to do because until 2008 I just had one investment which held all of my money – it was all in my own hedge funds. Therefore, diversifying a bit away from that asset concentration was pretty easy and at the same time a very stimulating and financially, a very satisfactory exercise.

What we are trying to achieve now is to apply what we have learnt both in hedge fund management and investment management. We have our own long volatility expertise and alongside that we will launch a number of different absolute return funds and be active not only in liquid markets but also on the private side. It will be a business offering well diversified and hopefully several interesting investment options.

Brad McCarthy
Permal Group

I am Brad McCarthy from the Permal Group. As one of the oldest and largest alternative investment groups in the industry, we manage approximately $23 billion and allocate to around 180 managers. Our operations are spread across the world – with offices in the Americas, Asia, Middle East and Europe – and our assets are split pretty evenly across the four geographies.

I run the Singapore office. We have seven people here on the ground, including a regional portfolio manager who is seeking and monitoring managers in the Asian time zone, primarily for our emerging markets products, including China, and also for other strategies such as fixed income and macro, two of our core areas.

Peter Gibson
HMP Dynasty Family Wealth

My name is Peter Gibson, I am the CEO of HMP Dynasty Family Wealth. We are a joint venture of Asian and Australian families joining up with two multi-family offices out of Europe in order to invest within the Asian region. Whilst we have a number of different business models, one of our major reasons for existence is to act as a second family office for those families that feel like they may have, in a way, come late to Asia and that want to be invested in Asia through an institution which is culturally aligned.

Matthias Knab **Peter, if somebody comes as you have paraphrased it "late" to the party here in Asia, what do you recommend to them, how do you invest for them, what are the opportunities you show those clients?**

Peter Gibson Talking about the opportunities first, the one thing that continues to strike me is how much change has been going on within the hedge fund land in this part of the world over the last few years. It was really starting to hit its straps before the financial crises, then it was decimated and is still to some extent, re-finding its feet.

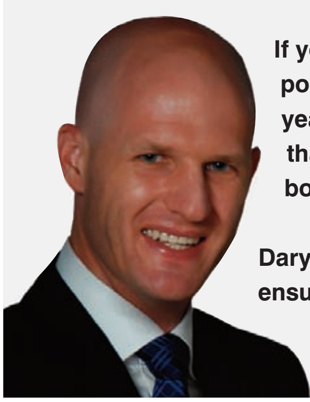
You find a striking dichotomy between the large institutionalized arrangements such as Permal, and the smaller, boutique type funds that continue to spring up. Investors have a lot of choices here, ranging from a fund of funds arrangement which will spread risk, to some of those new managers that may be open for a reasonably short space of time.

Our goal is to make sure we are on top of both sides here. Fact is that if you look through most markets, you will hardly find thousands of people that are really good at what they are doing – it is generally only a small number of people that are good at what they are doing. By being based here in this time zone and talking to all sorts of people here, we do find the same names do tend to keep cropping up, and the community tends to know who those people are.

Daryl Liew Our clients' portfolios are diversified across multiple asset classes, so besides alternatives, we also have positions in equities, bonds, commodities, as well as various structured products. With this perspective, there are many interesting investment opportunities here in Asia that we are looking at including in our portfolios. For example, in the bond space we are looking at initiating a position in China Renminbi bonds, which makes a lot of sense for US dollar investors because of the likely currency appreciation. There are also several compelling investment themes when it comes to Asian stocks, particularly in Northeast Asia.

In the hedge fund space, I have been talking to various managers here in Asia with specific niche strategies that we are currently evaluating for inclusion into our portfolios. Like Peter Gibson, I'm tapping on my contacts in the industry to sieve out the "more interesting" managers to initiate meetings with. After that, I tap into the capabilities of our core team back in Geneva that will continue with the due diligence work. For example, I recently met with a China quant fund manager based in Shanghai who has an absolutely fabulous track record. However, a lot more due diligence has to be done, not just on the investment process, but also on his operations and risk management systems before we will be comfortable allocating any money to this fund.

Brad McCarthy These comments all underline the significance of being physically based here. If you really do want to allocate to Asia, you have to be in Asia. Steve Zhang, our Singapore based portfolio manager, was our first manager to not sit in our New York office. He came over two years ago when it became evident how much activity lay ahead of us. We wanted to make sure that we could secure the best opportunities by being on the ground. This has certainly been borne out by the growth in the number of top quality Asian based managers.



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Daryl's point about due diligence is also very pertinent in today's environment. So how do you ensure the safety of your assets once a manager has passed rigorous due diligence requirements?

Brad McCarthy

Daryl's point about due diligence is also very pertinent in today's environment. So how do you ensure the safety of your assets once a manager has passed rigorous due diligence requirements? Well, one route is through managed accounts, which for us have become a significant proportion of our business, accounting for $6.1bn of our total $23bn AUM. These have been important for us in Asia, particularly in China. While managed accounts are not deal breakers, they are the preferred entry point, for they do provide additional levels of comfort, giving you as an investor additional transparency, liquidity, and control.

Bryan Goh My mandate is to provide diversification solutions to client portfolios. Asian investors like to invest in Asia. And diversification is not always high on the agenda. I think that the traditional solutions offered to provide diversification have instead provided dilution without the diversification. And as a result some of the trust with clients needs rebuilding. I'm taking a different approach with smaller managers, more esoteric strategies, so my colleagues the relationship managers have their work cut out.

On the issue of- investing in Asia, for a number of reasons, my view is that investing in Asia has been very difficult. The quality of managers has improved greatly since 2008, but if you went back five or six years or eight years the quality of managers was actually pretty poor on average. I have been investing in hedge funds since 2001 and in those ten years I have invested in a total of three Asian managers.

Peter Douglas How did those three work out for you?

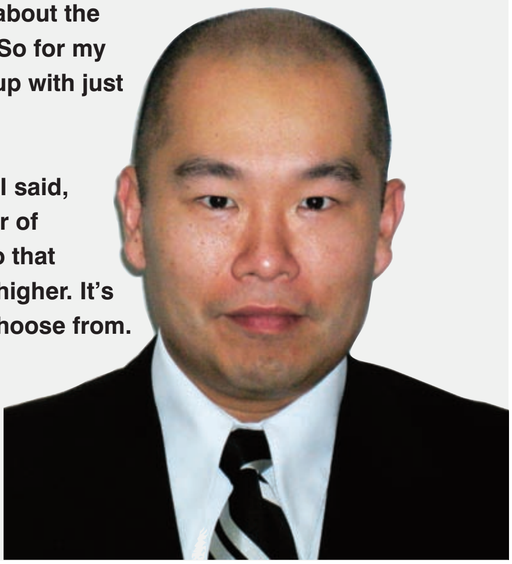
Bryan Goh Two of them worked out very well, one went and retired which was terribly inconsiderate of him, another is still going and doing very well, and the last one was an exceedingly bad idea. He didn't lose me that much money,- in fact I think he lost more partners and staff than actual capital.

Most people think of Asia as a place of opportunity, but most of that thinking is based on very directional considerations. I think one should be looking for dislocations and mispricings that one can take advantage of, and be rather agnostic about what region one is investing in. One should care more about the quality of the people you find trafficking in those markets and those regions. So for my approach to investing, this meant that with an international mandate I ended up with just three Asian managers.

I do think that Asia is a very fertile ground for hedge fund investing today. As I said, and I don't care if Peter disagrees, quality today is better than it was a number of years ago. Part of this is because 2008 exposed some of the weaker hands so that even without new launches the average quality of the surviving pool is much higher. It's a material phenomenon for the hedge fund investor to have a better pool to choose from. But beyond this, the quality of the new launches has been very good as well.

What is remarkable, even though it has been a long time coming, has been the emergence of more non-equity related strategies.

Bryan Goh



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2008 exposed some of the weaker hands so that even without new launches the average quality of the surviving pool is much higher. It's a material phenomenon for the hedge fund investor to have a better pool to choose from. But beyond this, the quality of the new launches has been very good as well.

What is remarkable, even though it has been a long time coming, has been the emergence of more non-equity related strategies. The number of credit and event driven managers launching and the quality of these launches is certainly very encouraging. And I think its in part because you and I and our best friends can launch an equity fund fairly easily, but a credit fund or an event driven fund is an entirely different proposition. I think also the stress of 2008 on bank balance sheets also meant that they were unable to carry or support the more levered strategies such as credit and event driven strategies on their balance sheets.

Peter Douglas

We have been researching, and doing due diligence, on Asian managers since 1998. Apologies to my peers here, but our experience has often differed from what we've just heard.

First of all, I find doing due diligence in Asia is generally much easier (certainly than in the US, and to a certain extent in Europe). With few exceptions, managers here are very open and very transparent - because they have to be.

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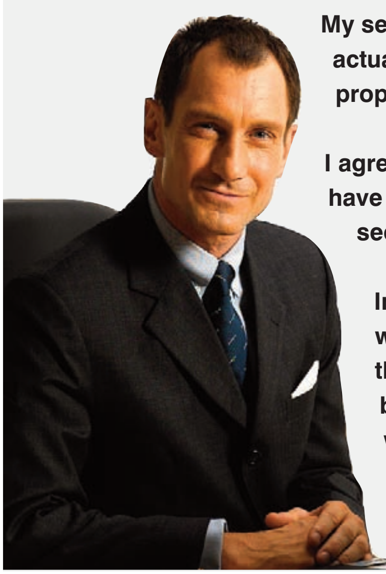
Most of the capital in the Asian hedge fund industry has come from outside Asia. If you are trying to source capital from an allocator who is a 12-hour flight away, in the wrong time zone, who you don't bump into in the same restaurants, and who you don't see at the PTA meetings, you'd better tell him everything he wants to know, because otherwise he is not going to do business with you!

U.S. managers, especially the larger "institutional" names, will often say "well, we will tell you this much, but that information is proprietary; we will give you 'x' amount of access, but not 'x+1' amount of access." It is much more defined and controlled. Generally, we find with Asian managers you will get the information you need.

The one exception here in Asia is in the People's Republic of China (PRC).



My second disagreement is on the quality of mangers changing between 2008 and now. I actually think the watershed was much earlier. We started to see really strong investment propositions coming through in 2002 and 2003.

I agree that organizations certainly got better post crisis, but as a whole I am not that sure if I have seen an improvement in the overall quality of managers from 2008 to 2011. We have seen little change in the proportion of the excellent investment propositions.

In fact, I think we actually saw more opportunists come into the industry in that period, which worries me. We meet managers who see the business opportunity more clearly than the investment edge: "well, two and twenty is a great model, we will give the business three years; if it's not really profitable after three years we will go back and work for Morgan Stanley", or wherever they came from.

Peter Douglas

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The one exception here in Asia is in the People's Republic of China (PRC), where we have found consistently that the information flow from local managers is often variable and unpredictable. I have an investment team of five people, of whom three are Mandarin speakers – so this is not a language problem. We have invested a great deal of time in PRC, researching the onshore universe since 2005, and I would caution that the due diligence and monitoring process there has often led to disappointing conclusions.

Clearly the China opportunity is very important. However from a fiduciary point of view we've learnt to proceed with great caution. We have a house rule now that we'll only invest in China with organizations led by principals trained in western organizations, or in PRC nationals based outside PRC.

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As with any other group or category of hedge funds, you will have the good, the bad, and the ugly. If you show me ten managers, within 30 seconds I will tell which five we do not need to talk about! Looking at the other five will take a bit longer, but that has always been the case. I don't think the proportion of really good managers has changed much since 2002.

What really changed between 2002/2003, and 2008, though, was that we began to see a lot more infrastructure around the investment skills. That meant you could also find great investment people who had set up the infrastructure that allowed professional investors to get comfortable.

Therefore I agree that organizations certainly got better post crisis, but as a whole I am not that sure if I have seen an improvement in the overall quality of managers from 2008 to 2011. We have seen little change in the proportion of the excellent investment propositions.

In fact, I think we actually saw more opportunists come into the industry in that period, which worries me. We meet managers who see the business opportunity more clearly than the investment edge: "well, two and twenty is a great model, we will give the business three years; if it's not really profitable after three years we will go back and work for Morgan Stanley", or wherever they came from.

To reiterate, then, I am not that sure that we have necessarily seen a lot more really good investment people come in to the industry lately. The proportion of the really good guys has been pretty stable over the last eight or nine years.

Steve Diggle

I am a manager myself, so when I look at other hedge fund managers, I am probably looking for different things than an investor. In the first place I would say that I would look for independence of view, insight, the ability to do things that I cannot. There are some very smart people out there. I believe the percentage of mavericks in Asian hedge fund management is probably higher than in other places. There may be issues with infrastructure here, not least because the industry here is a less mature industry. A lot of money usually comes from friends and family who do not ask too many of the DDQ questions, and most Asian hedge funds are seeded that way and that's a weakness.

There are some very smart guys here in the Asian hedge fund industry and I guess this is true of hedge funds everywhere, but I also perceive that there is a kind of silo thinking amongst managers, and I would include myself here. We tend to think "we know what we know", and don't look at anything else. What I mean by that is that people here tend to look at things or opportunities down one bowling lane, and the idea of looking into the next bowling lane is an affront to them.

As a consequence this leads to a certain way of doing things that can result in fairly high levels of correlation in manager performance. This has been the perennial problem for building a diversified portfolio: the correlation between Asian markets and Asian managers has been very high historically, and still is and probably has not improved at all.

Peter Douglas

You said there is a higher proportion of mavericks in Asia - but of course we really want mavericks!!

The last thing you want is a conventional investment professional running a hedge fund. That'll increase correlations, and the risk of groupthink. You might want conformists running the operations, you might want buttoned-down people running the accounts, and you might want the guy with the club membership to deal with the investors, but you absolutely want a maverick running the portfolio!

Correlations have indeed stayed in aggregate higher than they were pre-crisis, which is unfortunate. It is very difficult to say what is behind this, but my speculation is that it's at least partly due to investor behavior. Investors have switched to using larger funds, and want much more liquidity. We have this current craze for ATM-like liquidity; investors want the manager to put his hand on heart and say "I can liquidate my portfolio almost immediately", and investors are checking on that. Well that maybe fine at one level, but that means everybody is fishing in a smaller pond (of very liquid opportunities), which means correlations inevitably increase.

Peter Douglas

To your point on correlation: correlations have indeed stayed in aggregate higher than they were pre-crisis, which is unfortunate. It is very difficult to say what is behind this, but my speculation is that it's at least partly due to investor behavior. Investors have switched to using larger funds, and want much more liquidity. We have this current craze for ATM-like liquidity; investors want the manager to put his hand on heart and say "I can liquidate my portfolio almost immediately", and investors are checking on that. Well that maybe fine at one level, but that means everybody is fishing in a smaller pond (of very liquid opportunities), which means correlations inevitably increase.

So, in defense of hedge fund managers, the increased correlation within the industry may not be the managers' fault but have more to do with investor behavior.

Ralph Chicktong

We do not notice there are great differences pre and post financial crisis in terms of the skill of traders. We do notice that managers differ according to their understanding of the requirements for setting up and running a fund, in the support systems that they have in place, due regard to the segregation of duties and their procedures and controls etc. in place. There is more emphasis on these aspects now from investors and from managers seeking to participate on 3rd party fund platforms.

The other thing is that Asia is a very diverse place; every country in Asia is different in terms of governance, regulations and policies. There is a vast difference if you look at Singapore and neighboring Indonesia for instance. I believe that in their search for returns, investors are usually aware of this tradeoff between quality of regulation and governance in some places and the potential returns they might receive.

Especially since the last crisis of 2008, Asian regulation and governance has been evolving. If you look at China, regulation is evolving as we speak. Investors are gaining more confidence in the rule of law and so forth in China. Therefore, I believe there is certainly a shift in the way investors look at China and, in the way fund managers are selected within Asia.

The other thing that is noticeable as we emerge from the crisis is the change in strategies. For example, in the early stages, you saw more distressed debt and event driven strategies. Now, it seems to be falling in to the old pattern. You know, they said funds of funds were dead: they are not quite dead but rather living and coming back strongly. During the crises, PE hit rock bottom. There is now growing investment in PE. The traditional strategies are certainly reemerging.

Peter Gibson Another thing we noted at our family office is the amount of indications we have had from all the various families for direct investment. Whilst that is a feature of family office life in general, it seems to me that Asia does a lot of its business by way of direct investment. It seems we have almost two different discussions on direct investments in this part of the world. One, there are the market-based, institutionally-oriented managers, and then there are the people that get together over a cup of tea and dim sum to talk about doing property deals in Vietnam or Laos or wherever it might be.

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Peter Gibson

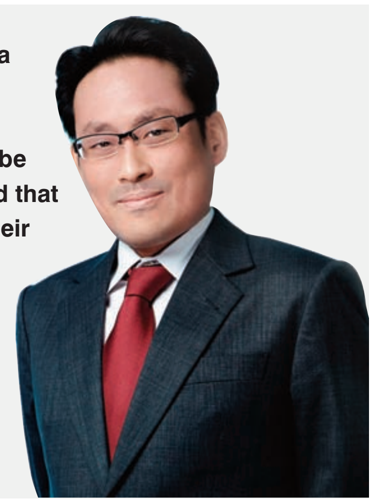
We have structured our business as a combination of Asia and Western principals, meaning that we actually have a look at both sides to the deal flow and that we will probably have a significant amount of our assets allocated for the prospect of co-investment and direct investment, which is a different discussion to the thing we are talking about here.

It has its own risks, of course, and there will be the occasional regrets no doubt, but also it suits that family office style of being more hands-on. I think one of the lessons that still seems to resonate within the family office space after the last few years is not wanting to be as far away from their money as they were before. For instance, some families may perceive assets in a fund of funds structure as too far away in order to feel comfortable now. For this reason, they are potentially more interested in a smaller number of directly invested managers rather than filtered down through funds of fund arrangements.

Daryl Liew That's a really interesting observation, because if you are selecting direct investments in your portfolio, you know that you are probably going to have to forgo liquidity and you have to be prepared to be invested for the long haul. This seems to be contrary to our own experience, and as Peter Douglas alluded to a little earlier, our clients are still demanding high liquidity for their hedge funds investments. Anything longer than monthly liquidity is not acceptable for the majority of our European clients. If a fund manager comes to see me and says they have a one year lock-up, we don't really have to discuss any further, because our clients simply won't agree to these terms. Obviously, as Peter Douglas has pointed out, these onerous liquidity considerations will obviously provide a drag on performance and affect correlations, but there's little we can do to change investors' preferences when the bad experiences of 2008 are still fresh in their minds.

I do agree with Peter Gibson's observation that the Asian investors' mentality is probably a bit different. They seem to be more willing to put money in for the longer haul and forgo some liquidity, because this is something they are probably used to. We believe there is a marked difference in psychology between what we can call old money in Europe and maybe the U.S. versus the new money that has been created recently here in Asia. We have found that the new Asian high net worth individuals are typically first generation wealth who made their money as entrepreneurs. They have been extremely successful in allocating their capital in their own businesses and insist on maintaining control of their money. As such, they want to make sure they know exactly where the money is going to, which is probably why they prefer direct investments, and as Peter mentioned, in many cases they do not want to outsource management to a fund of hedge funds for example.

Daryl Liew



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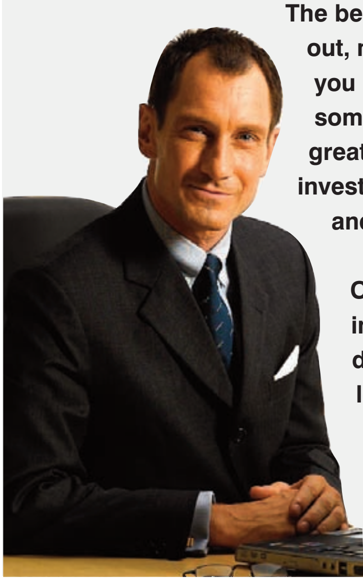
Peter Douglas

The behaviour of wealthy investors from Asia is consistent and rational, because, as you point out, most of Asia's wealth is first generation wealth. These people are still creating wealth, and you do not create wealth by diversification. The appropriate personal investment strategy for somebody who understands how the world works and how to run a business, is to keep a great deal of liquidity available. This allows them to have the optionality of looking at investments and opportunities quickly, to concentrate in the most exceptional opportunities, and make money as liquidity providers.



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Conversely, someone with second or third generation wealth often prefers to let the invested money just pay their dividend cheque. In this case, you clearly do want diversification; and very likely you don't want the discomfort of feeling your money is locked up in something that perhaps you don't understand intimately and intuitively. The difference between Asian and Western investors is less cultural, and more a function of where in the economic life cycle most of the wealth is.

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Brad McCarthy

Family offices are becoming increasingly sophisticated and over the past few years they have been moving more money back in-house, partly the result of the financial crisis, but there is a far more encouraging picture emerging as we are now seeing them returning to the table.

Likewise, our business has had to evolve, what we term 'evolution with continuity', and we have become increasingly sophisticated. In today's environment, to be successful, you need to offer more, be less rigid and have that additional degree of flexibility. Examples at Permal include product engineering exposures and separately managed accounts, and more top down macroeconomic thinking.

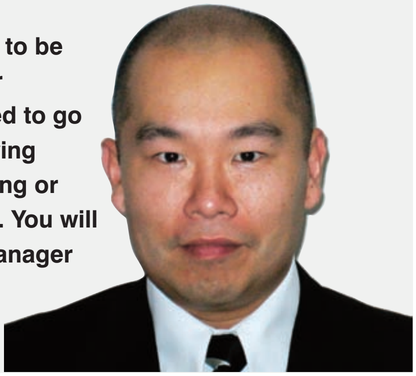
You also need to work far closer with investors' needs. While most investors are still happy to invest down the more traditional commingled route, many prefer to take a more customized approach. Such investors prefer their own mix of strategies and managers, dependent on their risk tolerance and views on asset allocation, but don't have the infrastructure and risk monitoring capabilities, etc. And for this they are happy to use Permal's resources and industry experience. Commingled products will continue to have a home, and will be a core part of our business, but I believe the larger and more established fund of funds such as ourselves will continue to develop far larger bespoke product businesses. Already this has become a sizable proportion of our business. It is all about adding not just value, but significant value, to your investors.

Bryan Goh In the short time that I have been in Asia, I have discovered that there is less interest in investing in private equity and real estate in a traditional fund format than in direct deals. Investors are happy to pay fund type fees to access the deals, but they do not want a blind pool, and this is not just about control, but also about transparency.

When we syndicate deals and private equity business from the investment bank, another thing I have noted is that clients tend to like businesses that are vertically integrated with their own operating businesses. The familiarity bias was very strong. And, so too the need for transparency.

This demand for transparency also changes how hedge funds and fund of funds need to be marketed today. Today, clients clearly want to see what they are getting. It is no longer sufficient to point at a track record and talk about process and policies. Now, you need to go much further. As a fund of funds what you would have to say is, "here are our underlying funds, this is what those funds intend to do and these are the ones we will be increasing or cutting", and so on. When you market a single manager hedge fund, the same applies. You will have to explain what is in the portfolio, how the portfolio has evolved, and what the manager intends to do given their view or outlook.

Bryan Goh



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My other observation about Asian investors is that they will often ask for leverage, which leads one to suspect that there must be twice to three times the amount of AUM that we do not see, a pool of assets that the provider of leverage has no recourse to.

The investor seeks to make the same kind of ROE as they would in their operating businesses, which means that they are aiming for the 25%, 35% range. How do you achieve that if you are investing only a third of your capital? Well you need three times leverage. So I think that what we see in terms of the volume of wealth in Asia is but the tip of the iceberg. There is a lot more wealth out there.

Steve Diggle Bryan, that does actually not suggest they have learnt anything from the past.

Bryan Goh They have learnt, because their losses relate to the one-third of capital we can see, but the provider of leverage has no recourse to the two-thirds of assets that we can't see.

Peter Douglas Over the last two years we at GFIA have seen more investor interest, from much larger allocators, for Asian alternatives, than over the last 10, 12 years. We meet more senior people, who are now asking more intelligent questions, but there's been little or no real execution. Compare this with the last Asian run up from 2005 to 2007, there was a lot of activity from intermediary organizations like fund of funds and private banks as well as other smaller institutions; in general, more junior people were sometimes asking the right questions, sometimes not, but in the end all of them were very active allocators.

Therefore, I would say the big theme right now when it comes to allocations to Asia is the lack of follow-through from allocators.

The only managers we've seen getting inflows over the last 24 months are some of the long-only stockpickers and the big multi-product asset gathering institutions that we tend not to consider as the core hedge fund industry.

Some of the big global alternative names that are in the business of collecting money are doing so quite successfully. But generally, the real industry has not seen inflows. However, we do see some signs at the margin that things are slowly beginning to change. Some of the managers we talk to have begun to see some flows moving in the last couple of months, so perhaps we are starting to see more execution at last.

Brad McCarthy

We live in a very different world post 2008. The good news is that clients are back on board and allocating, but it has taken a lot of work to get there.

An example is a China focused fund that we launched just over a year ago: having initially generated flows from outside Asia, we are now seeing good interest from Asian investors. This is partly because of the successful one year track record, with good returns and low volatility against its benchmarks, all prerequisites for private banks to take on a product. As a fund provider you have to be very good at what you do, because investors have plenty of choices out there.

Daryl Liew

When it comes to inflows, Reyl Group has actually been getting substantial inflows. At the end of 2010 we had probably about 4 billion Swiss Francs for the entire group, but new initiatives and commercial developments have put us on a path to reach 5 billion by the end of 2011.

We have a significant weighting in alternatives in our portfolios and stand ready to place these funds once we have completed our due diligence on the several Asian managers we are currently evaluating.

But I must add that I have been surprised at the lack of size of most of the hedge funds we have looked at here in Asia. The investment story sounds great and the operations are professionally done up, but they still haven't managed to attract investors. I'm amazed that they can keep surviving on such a small fund size.

Matthias Knab

They are surviving, as the cost base here is much lower than in many other parts of the world.

Ralph Chicktong

I can confirm that larger funds like Winton, Bridgewater and so forth are seeing a lot of inflows. But I would add that from our experience there are also an increasing proportion of investor funds flowing from within Asia into medium sized Asian funds. In Asia, there seems to be a growing proportion of investments coming from high net worth individuals rather than institutions.

When it comes to fund sizes in Asia, usually a $100 million fund is already considered big. We see many funds in the region between $10 million and $40 million.

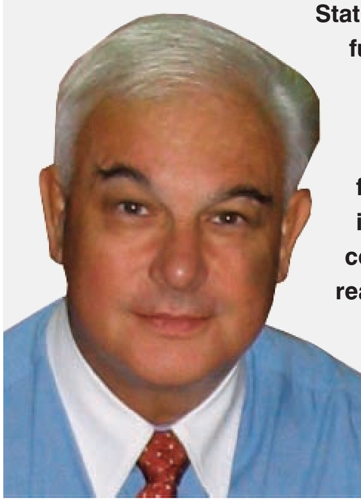
Matthias Knab

Ralph, do you have some details on newly formed funds in Asia? And what is new from the regulatory front in Asia?

Ralph Chicktong

If I recall correctly, something like 95 funds were set up in 2010 in Asia. 65 or 67 of those were in Hong Kong, and 15 or so in Singapore. The lower figure for Singapore may possibly be due to the uncertainty surrounding Singapore’s regulation. Now as there is more certainty about regulation, Singapore may again grow proportionally compared to Hong Kong.

Something like 95 funds were set up in 2010 in Asia. 65 or 67 of those were in Hong Kong, and 15 or so in Singapore. The lower figure for Singapore may possibly be due to the uncertainty surrounding Singapore's regulation. Now as there is more certainty about regulation, Singapore may again grow proportionally compared to Hong Kong.



Statistically there are more funds investing in Asia today than ever before. The number of funds investing in Asia is now in the order of about 1,200, which are about 100 more than before the crisis.

Singapore's regulator, the MAS, went through a lengthy consultation process regarding future regulation. That is now finished and the new regulation is scheduled to be introduced in the second half of this year. The new regulation will be centered around competency, capital requirements, residency and governance. In my view the regulation is reasonable, It was more the uncertainty of where the MAS was heading that probably put off some fund managers in 2010 when it came to choosing a jurisdiction in which to establish.

Ralph Chicktong

On the other hand, Hong Kong benefits more from China. There are enormous and increasing investment flows through fund managers domiciled in Hong Kong. I am not sure to what degree that magnitude of difference between Singapore and Hong Kong will continue, but to my mind Hong Kong will always win in that perspective because of China.

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I don’t think that Hong Kong has significantly altered the regulation surrounding fund managers. They have altered the regulation related to Hong Kong based investors.

In China, regulation is evolving as we speak, and this is occurring in gradual steps. For sure China has its mind focused on making Shanghai an international financial center. I don’t think this will mean that Hong Kong would disappear as a major conduit to China; at least not in our lifetimes. That is another reason why I believe that a lot of fund managers will continue to establish in Hong Kong.

Of course, Asia is a large diverse, emerging region and, there are and will be, significant investment opportunities in countries such as Indonesia, Vietnam, etc. As mentioned, each Asian country is unique and in many respects quite different from Singapore or Hong Kong.

Steve Diggle

We are in the process of re-launching and met with the MAS. It is quite clear the MAS wants to move from an unregulated to a regulated environment. At the moment, we really have no more than a registration process.

And that needed to change, what the MAS wants to bring in is all perfectly sensible and you could argue that at the bare minimum if you cannot satisfy these requirements you should not be in the business of managing other peoples' money in the first place, even if it is just five years experience and some derisory amount of minimum capital, what is it Peter, I cannot remember?

Peter Douglas

It is a two-tier regime. For an unregulated manager, the new requirements coming in this year are that you are required to have two professionals, each with five years of experience; there are a few other details but that's the main requirement. As you say, the minimum capital is small, S$250,000 on your balance sheet. However once you breach S$250m of AUM (or if you elect to anyway) the regulatory requirements here are comparable with any other major financial centre.

Steve Diggle

You could well argue that the consultation process was too long, but the result looks thoroughly benign. The new regulations will give MAS the power to intervene in funds they are uncomfortable with, which to a certain extent they do not have right now as long as a fund is obeying the law.

Overall I think the new regulated environment will be positive for the industry. Being in a regulated environment has some other advantages. For example, one problem we ran into was with SEBI, the Indian regulator, because they do not recognize Singapore as a regulated environment, therefore they do not recognize Singaporean hedge funds as complying with FII requirements.

Peter Douglas

From my perspective as a fund researcher and hedge fund investor, local regulation in Hong Kong and Singapore is almost a non-issue. Both the Hong Kong and the Singaporean regulators have made a real and successful effort to understand the drivers of the hedge fund industry. They both have pragmatic regulatory regimes, which work without getting in the way of the industry.

As most allocators will have worked out already, Hong Kong and Singapore are basically the same place as far as the hedge fund industry's concerned. They are the heart of the Asian hedge fund industry.

Hong Kong has an edge with China, Singapore is probably closer to India, and funnily enough, Japan and Korea, but in the great scheme of things that does not matter too much. The more important questions are, for example, whether Asian managers should be offering their products in the context of European regulation, or whether Asian managers are going to have to engage with the SEC in the U.S. Therefore, the real issue here is not about Asian regulation, but rather about the global regulation of Asian managers.

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We are already seeing the more entrepreneurial managers launching UCITS products for European distribution. When it comes to the U.S., most Asian boutiques are watching U.S. regulation with interest. You may remember that a few years ago the U.S. SEC tried to get foreign managers to register with them, and quite a large number of Asian hedge funds did so eagerly, but later realized it had been a waste of time. This time many of the managers we talk to are being more cautious, and would rather wait until they see that SEC requirements are for real and politically stable, or until their clients demand it.

Steve Diggle

We already pointed out that European and U.S. regulation are very expensive. I would say that at least at this point in time, a vast majority of Asian fund managers cannot afford to comply with European and U.S. regulation. UCITS is a good example. I mean it costs like $150,000 or $200,000, so launching a UCITS product for a manager with just say $30 million is quite a chunk. You could also argue it's another barrier to entry for managers, which is why some of the bigger funds have been delighted to promote it.

Ralph Chicktong

Correct. All in all I believe that the new regulation in Singapore will make it a bit tougher to become a fund manager than it was before. A consequence could be that emerging managers with smaller assets may be forced into something else, like joining with a platform provider or entering into a joint venture with an existing fund.

Matthias Knab

I was just wondering, are there any statistics that compare the proportion of frauds and blowups under the U.S. SEC and U.K. FSA regime versus Singapore and Hong Kong?

Peter Douglas

Professional fraudsters wanting to set up a convincing structure to steal other people's money will always try to go through a regulated environment, as it dilutes the responsibility of investors. The more regulation and the more regulated the environment, the more frauds can happen. That is just a fact of life! Caveat emptor, and primary due diligence, are the investor's only real protection.

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Steve Diggle

Just two observations about the U.S., where the SEC – which is in effect a weak regulator, undermanned and too small to possibly cover the entire industry - has to bear some responsibility for the Madoff disaster. The second factor is the proliferation of the self-administered funds. You could say the way the industry was constructed promotes fraud, just look at how many frauds there involved self-administered funds. So, in the end, investor behavior also comes into play, as you would think that having a good administrator would seem to be a prerequisite to invest in a hedge fund.

I mean, here in Asia, and you guys can correct me, I cannot think of any outright frauds.

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Steve Diggle

Peter Douglas

Charles Schmitt's fund of funds business in Hong Kong was constructed as a fraud from day one, and was closed down in 2004.

Steve Diggle

Yes, of course, that was fraud, but beyond that the hedge fund failures in Asia have been mostly operational due to poor risk management, level of concentration and miss match of liquidity. So, despite a loose regulatory environment I believe we probably have had less incidents of fraud than other places.

Peter Gibson

Amidst the discussion of regulatory requirements here, it should not be underestimated how much easier it is to do business in Asia than it is in the other parts of the world. The feedback we get on those questions around regulation of capital markets and investment managers is quite interesting. It seems that regulation in general is steering wealthy investors away from places like Europe and America at the movement, because in order to invest there, they would need to understand the regulation and the regulatory trends, including prospects like re-regulation and impending increases in taxation.

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Peter Gibson

For many domestic investors, Asia is perceived as a place that is - I would not say under-regulated, but where regulation is more sensible and is not going to get in the way of doing business.

In the end, it is maybe not about the amount of regulation but more about understanding the risks of what you are doing and who you are investing with.

Matthias Knab

Steve, you are launching a new fund with a new firm, what is your experience of launching now versus back then at Artradis?

Steve Diggle

Well, the main difference is that I am seeding it myself, so launching is a lot easier. I had some very satisfactory meetings with the seed investor and found him to be a big supporter of mine. [laughter]

Jokes apart, I want to address some structural issues in our industry. First, the prime broker system failed in 2008 for two obvious reasons. One reason is they were asking for more leverage from their customers. If you tend to be three times leveraged, borrowing money from someone who is 40 times leveraged is a bad idea. As the prime brokers deleveraged, they basically dragged the hedge fund industry with them.

Secondly, there was clearly some predatory behavior from prime brokers who deliberately preyed on their customers. The convertible bond industry may have seen the worst behaviour. Some of it was risk management, but I'm pretty sure some PB's actually saw it as a profit opportunity. So, sadly we see a lot of people who indulged in this predatory behavior not driven out of the industry and still adding customers, so it is difficult to see what the hedge fund managers have learnt from it.

From my perspective, having been through a full cycle, I only want to do business with people I trust as individuals and with institutions that came through the crisis well both in terms of how they managed their own business and their behavior towards their clients and counterparties.

When we started our first fund in 2002, often the first question people asked was "why are you bothering?" I think today people understand why you bother now. There is clearly a role for Asian hedge funds and it has transpired you can make money doing it, even though it has become much harder to start out and get the required asset base.

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Steve Diggle

Peter Douglas

Finding the funding has always been the challenge. If in 1998 you'd asked hedge fund managers in Asia "what is your biggest problem?", you would have heard "getting the start-up capital", and the same in 2000 and 2002. It was only really during 2006 and early 2007 that the fund-raising process got modestly easier. But getting assets is only one part, you also need good service providers.

The oldest hedge fund here in Singapore is Halberdier Capital, which has just closed down its public funds, returning substantial capital to its investors. The principal, Mr. Ikeuchi, said when he started in 1997 his biggest problem was finding a prime broker who would talk to him; that has certainly changed now!

Ralph Chicktong

We see a lot of start-ups. What has changed now is that managers are reluctant to spend money on setting-up fund structures before they have obtained real investor commitments, whereas before they may have tended to set up a structure, put up some of their own money and then hoped investors will come.

Similarly, some of the big brokers who previously would have been keen to take on start-ups and every fund they could, are now more rigorously analyzing start-ups in order to determine if they have potential and can grow to a certain size and revenue. If not, they will not take them on. Consequently a lot of start-ups come to us and say, "I have talked to so and so and they will not deal with us. Do you know someone who might deal with us?" There is certainly more due diligence on the part of service providers in the selection of their clients.

Matthias Knab

We have not talked yet about wealth management in Singapore, which is also a strategic initiative by the government here. How is Singapore developing as a wealth management and broader private banking center?

Peter Douglas

Singapore is increasingly becoming a hub for wealth management. For the time being and for the foreseeable future, the big capital market flows are in and to North Asia – but wealth management is here. I think that battle's been won. I don't get the sense that Hong Kong's government really wants a wealth management industry there.

It strikes me that increasingly the business of Singaporean financial services is to manage peoples' money, whether managing professional investors' money through hedge funds, boutique and unconstrained long funds, or whether managing wealthy individuals' and families' money through professional wealth management organizations.

Brad McCarthy

I concur, the future for Singapore as a financial center is extremely bright. The government and the regulators are both very forward looking. Additionally, Singapore is very stable in a part of the world that can at times be unstable.

From a lifestyle perspective, Singapore ticks all the boxes, and we have been here since 2001. It is safe and family orientated, the air and water is clean; from a professional point of view, Singapore is a place people want to go and it has no issues in attracting talent.

Daryl Liew

We just set-up the Reyl Singapore office last year, receiving our license in June, and have already attracted a decent asset size. However, one of the biggest challenges we've faced here is trying to hire relationship managers. There is incredible competition for the good bankers out here, which is definitely a sign that the money is here and that the assets are coming to Singapore in one form or another.

I think the growth of the wealth management industry in Singapore is going to be extremely beneficial for the hedge fund industry in Asia, as hedge funds are a key building block in any investment portfolio.

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Daryl Liew

Steve Diggle

Business has clearly rebounded a lot in Singapore. The unemployment rate is 2.2%, which means the labor market is tight here. I mean, the place is overheated, and you can see that. Office space has tripled since 2005 and staff salaries are rapidly ceasing to be a significant discount to Hong Kong and Japan.

Bryan Goh

Just a word of caution, from an investment and macro perspective. The risk to the global economy comes from inflation. I know I should not be expounding my macro views here, we are here to talk about wealth management in Asia, but give me a moment to finish my thoughts. I think it is always dangerous to extrapolate; I do not like straight lines. Inflation is priced everywhere except in the U.S. It's priced into inflation breakeven markets, into the bond markets, into commodities, into equities, and it is priced in most countries and regions except in the U.S. which is the one place where I think there is a significant mis-estimation of inflation. It's there but it is just not showing up in the data.

At some stage inflation will surface and interest rates will have to be put up, and when that happens we all know what will happen to the US equity markets. And whatever happens in the U.S. is never decoupled from anywhere else in the world. The long-term effects might be decoupled, but the immediate effect is going to be a levered lurch in the emerging markets.

I would be cautious about drawing straight lines. Clearly what is happening in Singapore now and in Hong Kong, especially in the real estate market, is not sustainable. I'm not suggesting that the bubble will burst soon, but one doesn't want a levered position in something as illiquid as an unlisted equity or physical real estate.

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Bryan Goh

Matthias Knab **So, what to do about that?**

Bryan Goh Well, it is very simple. You should not be making huge directional bets but rather investing in less market dependent, less correlated strategies. I say uncorrelated, but I actually hate using the term because correlations really fluctuate both stochastically and systematically. They depend on the frequency of the data, the time period over which you are sampling, the specification of your model, but really you should always look for something that is independent of market direction not just uncorrelated.

You do not want to be taking a big swing at the market in one direction or the other when things are this uncertain. I'm not as concerned about problems when they are identified and everyone says there is a problem; because then its not going to come and hit you when you least expect it. It is when no one can see a problem, that's when there is a real problem. Asia is the consensus trade, and it makes me a little bit nervous.

Ralph Chicktong We mentioned wealth management and private banking as growth areas in Singapore and we also see a lot happening within family office structures - which is a growth business for us

The challenge is that some of the family office structures are not set up within a fund structure. It could for example, be set under the unit trust structure, which is not a fund. The challenge of the service provider is to look at that business and to adapt and repackage product to provide the "non-fund" structures with similar services that we provide to funds, e.g. independent valuation, transparency and reporting.

I guess that as a supplier, we have a recognition that the market is changing. I would not call family office, for instance, a new product, but it is certainly one in the Singapore context where the market is expanding - as is PE - and the challenge to the service provider is to look at new client focus, recognize the differences and to see how we best service that business by extending a little bit on what we already do and making it competitive.

Peter Douglas Historically, the family office environment in Singapore has lagged Hong Kong quite significantly, but I believe this is changing. My perception is that a lot of that was stimulated by the financial crisis.

For most of the last six or seven years Asia has been the global battleground for the big private banks. This meant it was all about hiring, finding or buying whatever could to push you your market share in Asia. In the run-up to the financial crisis, a lot of relatively junior bankers competed to offer increasingly sophisticated products, to relatively new wealth. This “sophistication” generally meant more leverage, so the ugly result was inexperienced financial professionals selling leveraged products to inexperienced investors.

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The global financial crisis hit and the inevitable happened. A lot of people lost their money, and subsequently I believe there was a significant disillusionment with the allure of glitzy private bankers. The undeniable growth of family offices or family investment vehicles, wealth management boutiques, the ascent of a whole infrastructure outside the core private banks we have been discussing is a strong and ongoing reaction to those events. The wealthy here are really attempting to reclaim control of their assets back from the banking industry.

Peter Douglas

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Of course, Asia continues to create wealth, and new wealth will continue to use private banking services. Private banks do have a growth future in this region. However the peripheral services around the private banks may grow even more quickly, albeit from a lower base.

I agree with Bryan in his assessment about the markets, whether we are looking at equity markets or real estate markets. Asia remains very cyclical and currently is very much driven by Mr. Bernanke’s generosity. But I do not think that is a real threat for the Asian growth story over the longer term, and neither does it not conflict with the long-term structural growth story and attractiveness of Singapore. I believe Singapore is in a sweet spot at the moment. In a generation’s time maybe it will still be, or maybe it will not, but for now it absolutely is, and that position is really independent of the pricing of asset markets.

Brad McCarthy Peter is right, post 2008 people may have been disappointed by their private bankers, but the large banks to their credit have evolved, they had to. This includes the corporate private bankers who now are drawing on their bank’s multiple business lines to provide assistance, not only with the client’s personal balance sheet but also the client’s business balance sheet. Importantly they are adding far greater value. This has helped convince the client to ‘stick’ to those bankers and the large banks.

Peter Douglas I agree that big banks are clearly not going to go away, for all those reasons, because they can offer a franchise of services. But just empirically, if we would go back in time just three years, we would not have had a new multi-family office sitting in this room, I myself would not have been in the private wealth management business, and you would not have an independently owned boutique private bank at this roundtable either.

While the big private banks will not disappear because the franchise value of those brand names remains significant, it is undeniable that a very valid and vibrant boutique wealth management industry sector is emerging, that was not here three or four years ago.

Peter Gibson

I think what happened in the financial crisis was to crystallize a growing sense of cynicism. Particularly at the top end of private wealth, with the services and outcomes people get as a result of the wealthy investors direct relationships with banks, and as long as there is a perceived and occasional real conflict of interest between what private clients are seeking and what banks are delivering, there will be a fertile ground for the growth of independent wealth management businesses, family offices and such specialist providers.

We are currently in the third huge wave of wealth creation over the last 150 years. If you look back, a number of European family offices were formed in the first part of the 19th century. The great American family offices were formed in the later parts of the 19th and early parts of the 20th century. I think in our age we will see the founding of some of the great family offices and private wealth domains here in Asia, which at the same time will have a significant focus in this part of the world.

Peter Gibson

You have another couple of major global trends that are adding fuel to that fire. We are currently in the third huge wave of wealth creation over the last 150 years. If you look back, a number of European family offices were formed in the first part of the 19th century. The great American family offices were formed in the later parts of the 19th and early parts of the 20th century. I think in our age we will see the founding of some of the great family offices and private wealth domains here in Asia, which at the same time will have a significant focus in this part of the world.

Steve Diggle

Incentives are sometimes described as something of a problem for the hedge fund industry, but it is a vastly bigger problem for the private banks and the investment banks. One of the things that has really not been analyzed enough, although it is hardly a secret, is that investment banks, which are mostly public companies, and their traders are incentivised to make quarterly profits as big as possible, regardless of the risk. That clearly was why leverage went from four to forty times. I am a trader, I am in the same group here, but I do not get incentive payments if I don't behave well.

However, something weird happened to private bankers in the recent years. Historically, your private bankers used to be like your family doctor. Their job was to look after you for your whole life. But suddenly, they became like door-to-door salesmen. Their job was to meet their company's target to sell products. They became commission-driven salesmen. Surprisingly, today's new private bankers are incentivized differently from our traditional 50-year-old private banker who was looking forward to 25 years with the same customer. Today's new private bankers are sometimes not even on their job for six months or a year. It is a relatively recent phenomenon and definitely got out of control in Asia where in some cases private bankers spent less than a year with the organization before moving on for, yes, another guarantee. It is very unlikely someone can perform well for you when they do not even understand the institution they are working for.

It is a sad thing to see how incentives for investment banks and private banks became totally at odds with their clients. You could almost say the private banks' and investment banks' gain was the customer's loss. That is what Peter Douglas was talking about and one of the main reasons why we have that growth of independent financial advisors. It's the only way to guarantee that you are actually aligned with your customers.

In the current framework, maybe the only way to get a private banker align himself with your interests is actually to own him, because otherwise he is focused on the interest of the organization he works for and profit maximization by quarter, because he does not know if he is going to be there next quarter.

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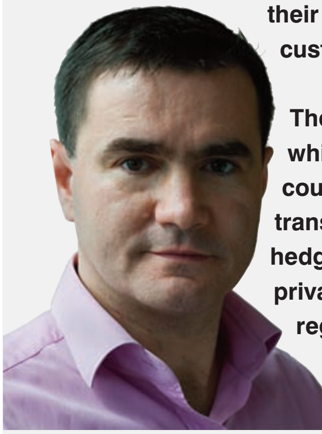

The hedge fund industry has always been better aligned with investors due to high watermarks, which means we can only charge a performance fee when we make money for customers. Of course, the hedge fund model isn't perfect either, but certainly better compared to the transactional incentives of investment and private banks. This is also one of the reasons why the hedge fund model has remained robust over time. We have not really seen the challenges that the private bankers have, and in my view the role of incentives in finance has not been addressed by regulators.

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The investment banks basically got off the hook with moral hazard, it is now vastly bigger now than it was prior to 2008. Lehman went under, but everyone else got bailed out and got to take the money they "made" with them. I think what has happened in Singapore is part of a global phenomena, which is that there is cynicism amongst wealthy people about the behavior of banking institutions and it is entirely well founded.

Daryl Liew Steve's comment about the transactional nature of private bankers here in Asia is very true, and our experience during our recruitment here totally confirms this issue.

We are a Geneva-based, Swiss bank that follows the traditional Swiss approach of using investment mandates where the clients typically pay a recurring annual fee for the discretionary management of their assets, whereas here in Asia, everything is transactional. It is almost a kind of cultural challenge to adjust their way of doing things to ours. The bankers here are basically used to performing a lot of trades and pushing products, and generating a lot of transactional fees.

Matthias Knab **Isn't churning the right word here?**

Daryl Liew Well, possibly you can see it that way. Things become really obvious in our interviews. Say someone wants to join us, and we ask him, as any bank would do, how many mandates they may be able to bring across, and they usually say something like "oh, I am not sure. I have never signed a single mandate. All my clients are all purely transactional."

While hiring someone with that background and retraining them to the Swiss way is not going to be a problem for us, I think the private banking industry here will have to change going forward, because investors are getting smarter and becoming more sophisticated as well.

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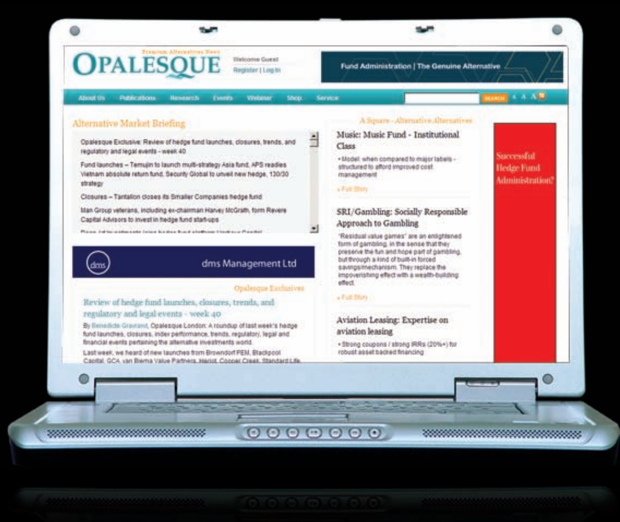

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