



Opalesque Round Table Series '11 PFÄFFIKON

Opalesque 2011 Roundtable Series Sponsor:



Editor's Note

Welcome to Pfäffikon!

After our last Zurich Roundtable in 2010 we decided to focus on the “Greater Zurich” for our 2011 Roundtable, as indeed Zurich is surrounded by charming little towns which host quite a few hedge funds. The one we chose is thirty minutes away from Zurich and has views over the lake: it is called Pfäffikon, in canton Schwyz (see dedicated website: www.financevalley.ch)

Pfäffikon, which is already the location to quite a few significant money managers such as Man Group, LGT, Horizon 21, 47 Degrees North, and Aeris Capital, has been actively seeking to attract more of them over the last few years. I saw quite a few office buildings and apartment blocks being built when I was there. You can read all about the advantages of being in this quiet Alpine location in our Roundtable report.

Here are some of the topics that were keenly discussed during the Roundtable:

- How is the **Swiss regulatory system** reacting to developments on the European Union level - such as the future implementation of AIFMD and the revision of MiFID?
- How are fund managers positioning themselves in the midst of the **European sovereign debt crisis**? How is the crisis impacting strategies? How is it affecting investors' decisions?
- What is the canton of Schwyz (SZ), and **Pfäffikon** in particular, doing to make itself as attractive as possible to the fund management community? How is it taking advantage of tax uncertainties or higher taxes in other cantons? What is life like to work in Pfäffikon?
- The **mismatch** between high liquidity and high performance; the problems of **liquidity and illiquidity**, including transaction and overhead cost, and lower performance as managers cannot allocate to best ideas (which may be illiquid). Why are investors pushed into liquid investments?
- **Insurance linked securities**: why is the environment favourable for this upcoming asset class? How will Solvency II create additional opportunities? Why is this asset class attracting new entrants?

Our esteemed participants, namely:

1. Walter Pfaff, **Head of Asset Allocation & Research, LGT**
2. Georg Stucki, **Partner, Kehrli & Zehnder Global Wealth Management**
3. Ronald P. Angst, **Partner, Picard Angst Asset Management**
4. Dr. Tilman Keese, **Co-Founder, Allmountain Capital**
5. Dirk Lohman, **Chairman and Managing Partner, Secquaero Advisors**
6. Stefan Heieck, **Co-Founder, Varus Capital Management**
7. Marcel Jouault, **Pfäffikon Financial Center PFC**
8. Joe Taussig, **Taussig Capital (sponsor)**
9. Sona Blessing, **Opalesque Radio moderator**

also talked about:

- **Start-ups**: should they prioritize their focus on performance before seeking new money? And why investors may start migrating to them anyway?
- How **asset allocation** has changed post-Madoff; the current lack of sticky money.
- Why do some favour **commodities** going forward?
- Which way do fund managers see **currencies** going (especially the Euro, USD and CHF)?
- **Regulators will not detect fraudsters**. How do investors do it themselves?
- Why is Switzerland a good enough place to run a **CTA**?
- What drives fund managers towards launching **UCITS** funds? Do they all believe in this new structure?

The Roundtable took place in November 2011.

We want to thank the **2011 Roundtable Series sponsors** Taussig Capital and Custom House for their support, and the host of this Roundtable, Pfäffikon Financial Center.

Enjoy “listening in” to the Opalesque Pfäffikon Roundtable!

Benedicte Gravrand
Opalesque Senior News Editor
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Cover Photo: Pfäffikon

Participant Profiles



(LEFT TO RIGHT)

Benedicte Gravrand, Joe Taussig, Maximilian Spiess, Ronald Angst, Marcel Jouault, Dirk Lohmann, Dr. Tilman Keese, Walter Pfaff, Georg Stucki, Stefan Heieck.

Sona Blessing, Moderator, Opalesque Radio, who attended the Roundtable, took the photo.



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The PFC financial Center offers state of the art office space as well as other services for companies, from Start-Ups to existing businesses. It is located in the center of Pfäffikon-SZ (Freienbach) on lake Zurich. Driving distance to Zurich is 25min, to Zurich Airport 45min. Train-Station for public transportation with non-stop service to Zurich and Zurich Airport is 1 minute away.

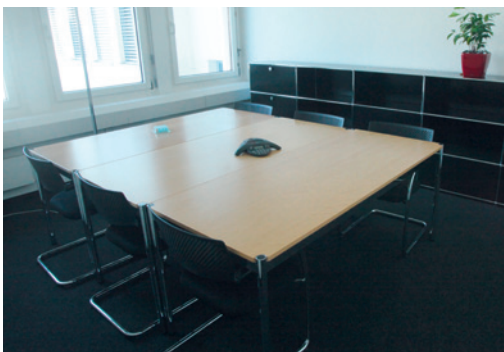


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 [*Source: ZHAW Study 2010](#)

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Introduction

Walter Pfaff
LGT

My name is Walter Pfaff from LGT. LGT is 100% owned by Princely House of Liechtenstein. The group's assets amount around \$107 billion. Beside the private banking department, we run also a alternative asset class and an asset management business. I run the overall asset allocation side of LGT Capital Management and oversee about \$20 billion of assets. A big stake is allocated into alternatives.

Joe Taussig
Taussig Capital

My name is Joe Taussig. Taussig Capital is based in Erlenbach and our business model is that we partner with hedge fund managers and we create banks and insurance companies which assets the managers get to manage. The motivation for the manager is permanent capital and substantial asset gathering. Our most visible company is Green Light Capital Re which has about \$2.5 billion in it and two other companies, recently announced, Third Point Re and SAC Re, both of which are raising billion dollar capital right now.

Georg Stucki
Kehrli & Zehnder

My name is Georg Stucki. I am a partner of Kehrli & Zehnder. We are a multi-family office based in Zurich. And I am the partner responsible for our hedge fund allocations, which, for most of our clients, ranges somewhere between 10% and 35%. We also manage single hedge fund mandates and have a small fund of funds

Dirk Lohmann
Secquaero Advisors

My name is Dirk Lohmann and I am a managing partner of Secquaero Advisors, a firm that was formed about four-and-a-half years ago. And our focus is investing in insurance-linked securities. These are more than cat bonds, which are most commonly known. We invest in a full range of insurance-linked assets. In addition, we also do some risk management and capital management consulting to insurance and reinsurance companies with regards to their modeling of risk.

Stefan Heieck
Heieck Siebrecht Capital Advisors

My name is Stefan Heieck. I am the founding partner of Heieck Siebrecht Capital Advisors (HSCA) and the Varus Fund. The Varus Fund is a long/short equity fund founded two years ago with a focus on German mid- and large cap companies vs. their European competitors. The fund grew from \$2 million to \$100 million since inception in September 2009

Ronald Angst
Picard Angst

My name is Ronald Angst and I am a founding partner of Picard Angst. We are an asset management company specialized in commodities and a full-service provider of structured products. We have two funds and about \$1.1 billion under management.

Dr. Tilman Keese
AllMountain Capital

My name is Tilman Keese. I am a Founding Partner of AllMountain Capital, which is an investment manager of a Managed Futures fund. The fund started a year ago with \$20 million, and now we are at \$100 million. The investment strategy at the base of the fund is a long-term trend following strategy and has been live for four years.

Marcel Jouault
Pfäffikon Financial Center

My name is Marcel Jouault. Managing Partner at the Pfäffikon Financial Center. The Pfäffikon Financial Center (www.p-f-c.ch) is a service provider for hedge funds and other asset managers here in the Finance valley Canton Schwyz on lake Zurich. We started in March 2011 and have right now five hedge funds and about ten other asset Management related companies within the PFC.

Maximilian Spiess
FX Concepts

My name is Maximilian Spiess. I work for FX Concepts. FX Concepts currently has around \$5 billion in assets under management. The main focus is currencies, and most clients are institutional clients. We have had a base in Pfäffikon since the beginning of 2010 and moved to the Pfäffikon Financial Center at the beginning of this month.

Maximilian Spiess

We hope that the situation, in terms of volatility in the currency market, becomes a bit more relaxed than it has been in the last year or so. We have had some difficulties mainly due to this volatility, because there was no clear trend to be spotted. We are looking more and more into high frequency trading, which is one of the new things we are expecting more returns from.

Dr. Tilman Keese

Managed Futures, as an investment class, are currently in a drawdown, like most other alternative strategies. By end of October, the Managed Futures Indices are down about -6%. Given this unfavorable environment, our Managed Futures program did quite well and is up +10% year-to-date.

I think the current regime does not favor large trends. There are many offsetting elements impacting markets. On one hand, federal banks, central banks are easing. On the other, consumption is slow due to consumer de-leveraging after the financial crisis 2008.

At the beginning of the year, we had seen a moderately good trend environment. Many of the trends faltered later, starting with the commodities, followed by FX and equities.

The outlook from here on is substantially better, as the current global macro situation will get clearer with respect to the debt situation in Europe. In the end this will lead to substantial price trends.

We clearly favor commodities as they are a purer play on the economic development than stocks or currencies. Precious metals might show good trends in both an inflationary and deflationary environment.



Dr. Tilman Keese

Over the next 6 to 12 months I am positive for Managed Futures in general and for our fund in particular.

Ronald Angst

After 35 years trading commodities, I am bullish on commodities as they still have a long way to go in both institutional and private portfolios. In this context we have launched a Luxemburg-domiciled UCITS IV fund based on our successful Picard Angst Commodity Index as a tax transparent alternative to our existing Swiss fund.

Stefan Heieck

We have just finished our second strong year. The fund is up 20% net with 0.2 correlation to the market and 7.5% volatility while maintaining a high turnover of 20x.

We are benefiting from the uncertainty in the markets, which creates trading volatility, especially on the macro side and this will not change. If you invest in bonds, you will get 1.5% yield. As for equities I am quite optimistic for the next year.

To answer your question I think that the volatility will remain very high. I do not think that the European debt problem will leave the markets for the next two years. We are very focused so we are trading mainly in Germany, Switzerland, and Austria, markets which we have known very well for the past 13 years.

Dirk Lohmann

Our fund's performance has actually been quite good this year. On a relative basis, we are still up 3% - 3.5% as of the end of October, and compared to our peers it is about a 5-6% of outperformance, because most of the market is down due to losses in the first quarter in the insurance markets.

As far as the outlook is concerned, we are quite bullish about the prospects for growth in our sector. Insurance-linked securities are still a fairly young asset class. It was only formed in the late 90s and has really grown in the last 5-10 years in a significant way, but it is still very small. What we see is that the macro environment is quite favorable. There is a lot more institutional money that is now looking at the asset class, because of its very low correlation to other financial assets. At the same time, the insurance and re-insurance industries have had a pretty poor year on the underwriting side, and some balance sheets would appear to be distressed if they have Euro related assets.

We do see increased demand for protection, which the capital markets can offer through insurance-linked securities and we also believe that there will be opportunities beyond catastrophe risk. Last spring, we structured and syndicated a €60 million value of in-force life securitization where we helped a European company refinance the acquisition cost of its life business; we see a lot of opportunities like that as well.

Dirk Lohmann



These are sort of the developments we focus on. We are trying to add more capabilities on the life side, because we believe there would be more opportunities there. I stress this is not life settlements, which everyone has burnt their fingers on, this is actually a portfolio-based life securitizations.

We launched a UCITS III or now a UCITS IV fund in Luxembourg in the spring. That was in response to investor demand for a more liquid and regulated product.

Georg Stucki

We as a multi-family office usually invest or try to invest in the best hedge funds we can find. The ratio is, like in venture capital, 1 to 20; where you find one good manager out 20. We also have a small fund of funds, which is advised by Crossbow Advisors. It has a bias by design towards risk premia exposure, meaning mainly to credit, event-driven and distressed strategies. We use this fund of funds mainly in our clients' portfolios, but we also have a number of external investors.

Walter Pfaff

From the overall asset allocation side we are seeing a lot of anxious and risk-averse investors sitting on big stakes of cash. We have shifted towards income-yielding asset classes, high yield especially, but also emerging market fixed income. On the alternative side, we did a clear shift towards CTA macro strategies, even three years ago.

My colleagues from LGT Investment Partners recently launched a so called alpha generix strategy. That is a very liquid and a rule-based alternative product with very good results in the last years.

We have systematically increased the allocation towards these asset classes, which are very attractive in the current environment.

Benedicte Gravrand

What is your outlook for your funds, and do you have any new products?



Ronald Angst: I think there is a paradigm of change in Europe, ahead of the emerging markets, but the emerging markets are not so far behind. We as a Swiss company are concerned about the currency situation. I mean 1 Euro to 1 Swiss Franc and 1 Dollar to 0.7 Swiss Francs, without having any affiliates in the foreign countries, would be quite difficult for us. But I expect that Switzerland will keep setting standards as a financial hub even with all these transaction taxes and so on. I am very positive on Switzerland.

Ronald Angst

For example, on the currency side you had major interventions to lower the Yen against the Dollar and the Swiss Franc against the Euro. On the bond side, the Fed is holding US rates near zero until 2013 and the yield curve is twisted to its long end. On the equity side major European indices cannot be shorted, such as the EuroStoxx future.

Looking at our signals the current environment can best be described as a risk adverse situation which is not allowed to play out due to the many aggressive market interventions.

There is a lot of pressure from governments to stabilize markets and to step in immediately as soon as the risk premiums rise.

Our strategy feels the impact of the political interventions, as trend fundamentals to the current macro-economic situation cannot play out.

I believe this is part of the reason why Managed Futures in general cannot perform well in the current environment.

But going forward there will be a point of no return when markets will evolve according fundamental economic developments. This will be the moment when price trends will emerge.

Dr. Tilman Keese



Stefan Heieck

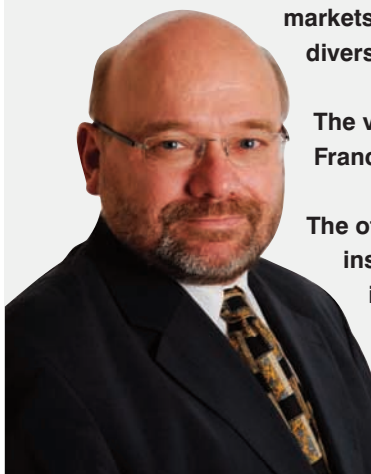
I do not think that anything will change for the next two years; the markets will start early focusing on 2013 next year as that will be the year with the highest ever refinancing in Europe. There will be the same problems as this year and in the last years. We are trading. We are active profit takers, and believe the markets will again be range bound, so in favour of our investment strategy. We will have the next macro shock, markets will come back and as long as the situation is not solved, you will have volatile markets without a clear direction.

Dirk Lohmann: The general impact is only indirect to us. Our asset class is not linked to the financial markets. The benefit we have is that more and more institutional investors are looking for real diversifiers and insurance is one of those.

The volatility of currencies indirectly impacts us only as a firm in that our costs are in Swiss Franc and our revenues are heavily Dollar denominated. That it is painful at times.

The other effect of the crisis here in Europe is, obviously, that it has heavily impacted financial institutions including insurance companies to a certain extent; we now see in some instances companies whose balance sheets are distressed. As a consequence of that, they need more soft capital in the form of reinsurance or in the form of insurance securitizations, and so that create opportunities.

Dirk Lohmann



Sona Blessing

In the context of insurance-linked securities, this year has been exceptional not only because of the major catastrophes but also owing to RMS's model changes - how has this been reflected and impacted issuance?

Dirk Lohmann: I think we will see a strong year overall in total primary issuance. In the cat-bond universe there was a decline in issuance during the first half of the year and that was very much model-driven. One of the three modeling agents came out with a new version which shocked many American companies and it took a while for them to digest that. But right now, in one of the major issuance windows, we are seeing quite a lot of activity and we expect to see that activity continue through the end of this quarter and into the first quarter, so we are quite bullish on that side.

Dirk Lohmann



Sona Blessing

Have the seasonality and cyclical aspects on the peak peril side been captured to optimize yields?

Dirk Lohmann

The cat side is where you see a lot of seasonality and the secondary market does reflect this to an extent. Portfolio based life securitization transactions are not seasonal by nature. There is quite a bit of activity in one area with regards to regulatory capital in the United States. This is not really flowing into the ILS market per se, it is ending up with banks and bank syndicates. But there are some other opportunities in the life area which are coming into the market. We just saw a value of in-force transaction that was trying to be marketed recently. I am not sure if it will be successful, but there is definite interest from sponsors.

Joe Taussig

Do you not think Solvency II will help this market grow?

Dirk Lohmann: Yes, I think Solvency II will create additional opportunities and one of the areas is in cat, because under the Solvency II stress scenarios, they require the companies to protect their balance sheets against events occurring up to one in 250 years return period. Up to now, historically, many European companies have only bought protection up to one in 100 years, so there is a lot of extra demand and it is at the upper end of the spectrum of capacity. This is the area where the capital markets are actually most predominant. So, I think that is going to create opportunities.

The other area is, obviously, how the balance sheets are impacted by risk weighting of assets; that can cause demand for capital relief and we are seeing that.

Dirk Lohmann



Joe Taussig: We have seen a lot of pressure on the life companies, particularly those that are heavily in the pensions. In America, pensions are in a trust form, away from the insurance companies. But in Europe they are in the regulated insurers and a lot of them were selling policies with 4% per year crediting rates, which is a joke.

And if you look at some of the really big insurance companies' balance sheets that are heavily into life and pensions in Europe, you do not see any other way that they can get balance sheet relief. I do not see them raising capital in the capital markets, I can see them only securitizing the business; it is the only way to do it.

Joe Taussig



Benedicte Gravrand

Back to the European outlook, what is your stance on that?

Georg Stucki

We are, on behalf of most of our clients, very cautiously positioned in the current market environment. The European crisis will not be solved for many years I believe. But we will monitor the situation closely.

In terms of the managers we select for our clients, we look for managers who can dynamically manage their exposure and mitigate the downside well.

Walter Pfaff: Within Europe, problems will not be solved even after the changes in the governments which were announced recently. We expect that we will see a lot of austerity programs and a lot of pressure on growth coming from the high debt levels, even in the mid or long-term future. Investors' sentiment is currently depressed, which is probably the effect of the recent market draw down; we expect very high volatilities ahead and look more for overreaction mean reversion trades.



It will be also a hard environment for hedge funds. We saw that the long/short equity hedge funds which had a hard time this year.

Also on the currency side, we expect more volatility. We have only seen the beginning of the so called currency wars. They are not finished yet.

Walter Pfaff

Maximilian Spiess: I think our firm generally has always been more Euro bearish. Even more now and we suggest that there will be more Euro weakness in early 2012. Further we see USD strength and CHF relatively strong but not too much stronger because of the SNB interventions. We think it will remain one of the safe haven, and that there could be some problems in the future for the SNB to hold the EUR/CHF 1.20 level if we see further EURO weakness.



Maximilian Spiess

Otherwise, there are always opportunities in currencies, the Asian currencies are attractive and are some Latin American currencies.

Benedicte Gravrand

Why do you think the SNB will not hold it?

Maximilian Spiess

The main issue is that they will have difficulties in holding their level, because more and more investors will want to invest in the Swiss Franc and come to Switzerland. So it is going to be very tough for them to hold the pressure in the longer term. Short-term, they have been able to hold it, but even though, say, Italy in the short-term has been able to solve the problem, we are still not sure. Once Mario Monti starts to work, he will find the real issues are not going to be solved just because of him being the famous EU Commissioner. Once the hype is gone, the real issues will come to mount and it is going to be tough one for him to solve.

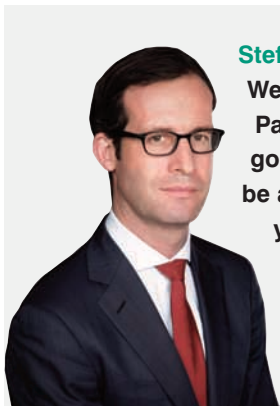
Benedicte Gravrand

Can you tell me about investment flows into or out of your company and Switzerland as well in the last 12 months?

Dr. Tilman Keese

The negative sentiment among potential investors is affecting the Managed Futures industry. However, we could grow the fund from \$20 million to \$100 million over the last 12 months. Over

this period we were up 11%. The good performance of our fund clearly generates interest from potential clients.



Stefan Heieck: The situation like in the past has not changed: performance attracts money inflows. We started the fund with \$2 million, which was mainly our own money. We finalized a seed deal with Paris based NewAlpha, who committed capital for Varus Fund for at least three years. It is a very good partnership for us, as we were getting feedback from investors who wanted to see our fund to be above \$50 million. This is still the golden rule and you have to demonstrate how you make money, you have to open your book, you have to be highly transparent, you have to be focused on liquidity, and also not to be highly correlated with the markets.

Stefan Heieck

Benedicte Gravrand

Are there a lot of incubators looking for funds in Switzerland?

Stefan Heieck

Not really. We wanted to go alone for the first two years as we were focusing on making performance. As I always say, if my left arm is the performance and it is going in the right direction, and my right arm is assets under management and it is not following my performance, we have to do something about it. When the two years were over, we had grown from \$2 million to \$20 million, which is slow growth but very steady. We have more than 40 single investors and I know each and every one extremely well. That is very important. It is not like that someone puts \$50 million on the table and you have no personal relationship to the money. I think for us it is just starting, because with a higher AuM, finally the company can make some money.

Dirk Lohmann

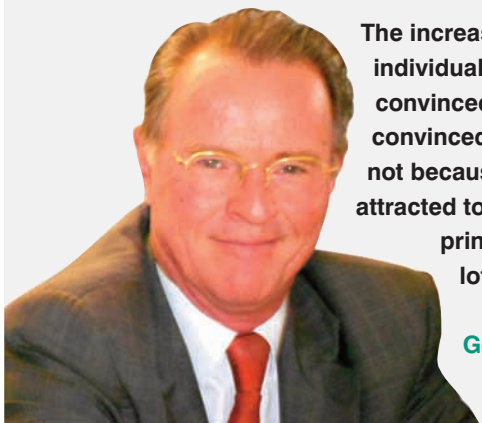
We were faced with a somewhat different situation. We launched in 2008 before Lehman Brothers' collapse, and our strategy is less liquid. Insurance linked securities are not a highly liquid market. Many of the assets are buy-and-hold, although you can trade them and as a consequence it was very difficult, actually impossible to raise money beyond the original seed capital for the first three years. We started to see inflows in the spring of 2011, as we by then had a three-year track record. We created a new product and we have seen our total assets grow by over 150% since the launch.

That being said, it is still difficult because our strategy, although attractive from a diversification perspective, is a somewhat complex product. It is not easy to explain either to an allocator or to his Board, and it takes a long time for many of the institutions to get comfortable with the asset class before making an allocation. So we are engaged in what I would call a long-term educational process, bringing investors up to speed on the asset class and then hopefully getting them to select us as a manager.

Unfortunately, there are other competitors out there as well and we have to beat those too. But in general, I would say the environment is still favorable. Many allocators are looking for absolute positive returns, which is something that used to be offered within the hedge fund world, but has been difficult in the last couple of years.

Insurance has been one of the few assets that have consistently brought positive returns. But it is a tail risk, so people have to be conscious of the fact that tail events, when they happen, can be quite severe; the risk in there needs to be managed properly. That is one of the communication issues as well.

Georg Stucki: We do not have a fund product per se, which we sell actively apart from the fund of funds mentioned earlier, but I can tell you that as a multi-family office, we have increased our assets under management this year.



The increase in assets is basically coming through long-term relationships we have with individuals or families, who we have known for many years. One day they might become convinced that we are the right partner to look after their financial wealth. We are convinced that Switzerland is still an attractive place for many wealthy families. But it is not because we are based in Switzerland that we get new clients. Rather they are attracted to personal, tailor-made, professional and totally independent advice, which the principals of the firm provide and that is contrary to what most of them get from a lot of the banks.

Georg Stucki

Walter Pfaff: We saw some inflow, but times are getting harder now to get new money. What we are seeing especially in Asia is a lot of interest, because institutionals are not happy anymore with consultants, and the role consultants played in the past. Investors are looking to get alternative advice and access to interesting strategies. That is the main growth area which we are seeing.



Walter Pfaff

Maximilian Spiess

We have had, this year so far more outflows than inflows.

A lot of it has to do with the daily liquidity products we are offering. People are getting in and out more frequently and even institutional investors are looking for daily liquidity products. Having said that, the inflows that came in were mainly due to the fact that we are offering high watermark historical, all time high water markets. It is currently a free ride for investors, so that is at least something we can offer to investors at the moment.

Benedicte Gravrand

I heard it said that running a CTA from Switzerland is not easy. Could you tell me why?

Dr. Tilman Keese: Switzerland is actually a very good place to manage a CTA fund from. Switzerland is attractive, as it is in-between the time zones of Asia and the US. During your working day, you can trade the Asian markets, European markets, and the US markets into the close. Typically, the liquidity shows up in the early afternoon when the US markets are up, so you have a certain edge.



Accessibility to markets is nowadays not an issue anymore. We trade 95% on electronic markets; it does not matter where you are geographically located to execute your trades. We have centralized our main activities in the US with our clearer being US-based and by having a fully managed IT solution in the US. Such a solution removes any latency issues.

Dr. Tilman Keese

We could work from anywhere in the world, but Switzerland offers additionally great access to professional investors.

Ronald Angst: It is quite the nice atmosphere for CTAs, as my colleague mentioned. The only thing is, to establish a Swiss fund is extremely difficult and under the Luxemburg law you can only use swaps. So from a security point of view, for a swap-based fund, you can insure it but it will cost you. I am seeing a lot of difficulties within the Swiss fund industry for this very reason, and funds may leave Switzerland.

Ronald Angst



Benedicte Gravrand

There are a lot of regulatory developments in the European Union at the moment, and Switzerland is creating a bridge with the AIFMD, with the upcoming Swiss Collective Investment Schemes. What is your position on the regulating all asset managers and the enhancing requirements, and what are you planning to do with regards to the impending EU regulations?

Maximilian Spiess

Our funds are all either offshore Bermuda-based Funds or UCITS III funds. Furthermore, we are present on all the major bank platforms, such as Lyxor, DB X, Citibank Citi FX, etc.

Marcel Jouault

We do quite a lot of structuring for hedge funds who want to get established in Switzerland and therefore work closely together with FINMA and PWC on all the new laws and the Alternative Investment Fund Managers Directive (AIFMD).

There are many differences between each Swiss canton – for example, Geneva, the canton of Zurich and the canton of Schwyz (SZ). Quite a few funds are looking at canton Schwyz, not only because taxes are the lowest in the country but advisory fund structuring here is easier than in some of the other cantons like Zurich. Zurich has decided not to give fund managers a final tax declaration. This means a lot of funds out there have not had a fixed tax declaration for years, because cantons have not told them how they are going to accept the structures.

We will see next year how these new laws will be implemented and how funds are going to get regulated. I'm sure not everyone on the list can get FINMA (the Swiss Financial Market Supervisory Authority) approved within three years. Something is going to have to change in the timing of AIFMD. We are watching this regulatory world closely to advise our funds accordingly.

Marcel Jouault



Dr. Tilman Keese: From a top down level, I think regulation of Switzerland is driven by the European Union. The European Union, with the Alternative Investment Fund Managers Directive (AIFMD), is taking a huge step towards regulating asset managers.

Right after the financial crisis the focus was very much on more regulation on the banking side, to stabilize the new banking system. Now, suddenly the focus is shifting towards asset managers. The requirements to comply with the AIFMD are demanding. If you want to become a fully authorized EU manager managing out of Europe, you would need to adhere to, for example, a certain cap on the leverage side, and you would need to incorporate remuneration rules that apply to banks as well. You would need to do modifications on the organizational set-up, e.g., in the relationship between risk management and portfolio management.

Dr. Tilman Keese



I think these rules go very, very far. It basically limits an asset manager to structure himself such as being able to optimally execute his trading strategy.

Furthermore, not only asset managers and banks are getting regulated, but also market structures. The Markets in Financial Instruments Directive (MiFID) is impacting the markets to a great extent. Under its current review paper, algorithmic trading will no longer be permitted, because from the EU regulators' perspective it is considered a sub-strategy of high frequency trading. Anyone but market makers probably would need to rethink execution strategies if the review paper will come into force.

Bottom line, there is clearly a huge wave of regulation hitting investment managers on the alternative side. As a consequence, investors' access to the alternative investment fund industry will be diminished – and this element may be overseen.

Our strategy at AllMountain Capital is not to opt for a full-fledged European passport. We will distribute under the private placement rules as they will be in place until 2018 at least and maybe beyond this date. This is the safest strategy for us. The EU passport may be available in 2015 for all those managers who, like us, are non-EU alternative investment managers marketing a non-EU investment funds.

Walter Pfaff

Regulations in Switzerland are starting to get a little too much. The regulation boards are making it difficult for financial players.

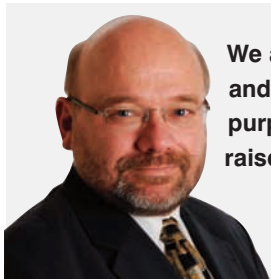
Just as an example, we have two commodity funds which are authorized for public distribution in Switzerland and we had one in Liechtenstein. At the time we tried to transfer the permission for public distribution to Switzerland and the answer was “do you understand something about commodities”.

Stefan Heieck

I agree with all previous statements. What we hear from our auditor PwC and our local lawyers is that everyone, who has all the licenses and who has already been active in the market before 2013 should be happy. By 2013 the market regulation will get quite tough especially for start-ups without a two to three year track record.

Dirk Lohmann

We also act, right now, as a private placement offshore manager, although we have a UCITS vehicle, which is admitted for distribution in certain EU countries.



We are watching this development very carefully. We are not really planning on waiting until the end and we have actually set-up a German company which will be BaFin-regulated for distribution purposes as a first step. Also because of the passport, we do not want to wait until 2013. We want to raise the money in Europe now, so we are talking steps gradually to address those things.

Dirk Lohmann

With regards to other operational issues that are prescribed, we have pretty much already fulfilled those in our firm.

Georg Stucki: If you look at UCITS regulated funds, they are normally more expensive, they have investment restrictions, which make it more difficult for a manager to manage his strategy. I have to trust the manager at the end of the day and not the regulator to save me from managers, who should not be trusted in the first place. So, if I can avoid it, I will choose an offshore fund over a UCITS fund structure.

Georg Stucki





Walter Pfaff: I fully agree to Georg Stucki; the regulator will not help you in detecting any fraud in advance. You have to do it yourself. On our product side, we have set-up most structures in Liechtenstein and in Ireland for the alternative products. We have also a certificate platform in Luxemburg which means we are not directly affected by all of the problems here in Switzerland, as I mentioned before.

Walter Pfaff

Benedicte Gravrand

You are saying that regulators are not going to help you to detect fraudsters. However, have you developed your due diligence process since '08?

Georg Stucki: The way we work at our firm is that we have a number of independent advisors and consultants from whom we get a lot of information on funds. They have done their own due diligence on funds we invest in most cases. But we do not rely exclusively on external research; we also do our own research and analysis of the funds and managers. In addition, we have a very good network, which helps us to find the best managers.

Georg Stucki



Dr. Tilman Keese: As a rather new manager to the field, we need to come up with some modifications on how to deal with the structural risks of a new fund. I think nowadays you need to be able to demonstrate that your business infrastructure is on a very high level, clearly targeted at institutional investors. You may need to have, for example, an IT solution managed by a top-tier provider in place. You must demonstrate that you work with top-notch counterparties. The recent example with MF Global highlights this point. You need a consistent and comprehensive set of checks and balances.

Managed Futures are often seen as black-boxes by investors. We designed our Managed Futures strategy, however, to be a "glass box". This is due to our conviction that an investor has the right to have full transparency. There is essentially no way around such an approach in the post Madoff era.

Dr. Tilman Keese



Investors need to be able to see how their money is invested and how the investment returns are being generated; I think this point is very crucial. Over time, investors gain a better understanding and ultimately a better trust.

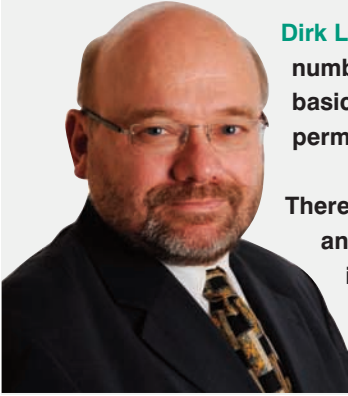
With our fund, we are transparent, all the way down to position level. Essentially, we offer our investors the same look-through that she would have with a managed account.

Marcel Jouault

At the PFC, we provide managers with a sophisticated infrastructure so they can pass due diligence processes quickly and easy. All Funds are member of at least one SRO to ensure everything is up to the latest AML.

Benedicte Gravrand

What trends have you noticed among hedge fund start-ups?



Dirk Lohmann: In the insurance-linked securities area we have seen the announcement of a number of new entrants into the space. Some of these are entities that Joe mentioned, which are basically hedge fund-backed re-insurance vehicles where they are trying to raise more permanent capital.

There are also some managers that are being set-up by professional re-insurers. SCOR just announced a fund called Atropos, which started with around \$150 million. We are seeing increased interest.

Dirk Lohmann

The biggest steps and the biggest moves are these permanent capital vehicles where insurance is just a strategy to raise assets and then have them go into hedge fund type investments. That has worked quite successfully in some instances; in others, I do not think it has. It really depends on what the long-term strategy of the vehicle is.

If the long-term strategy includes an IPO exit, then it may not work, because we have seen that fail in the past. If it is permanent capital and it is part of a hedge fund, it might be very interesting.

Sona Blessing

In the insurance-linked security space, is there a trend toward introducing and adopting instruments which are triggered by indices?

Dirk Lohmann

There has been one attempt to try to build a tracker for the Swiss Re Cat Bond Total Return index, but it has not to my knowledge been successful, it has not found any money yet.

Perils is a new index provider currently offering a market loss index for European winstorm. Perils was launched a little over two years ago and is now getting increasing traction.

Indices might be a way of making certain types of insurance-linked transactions more palatable to capital market investors. I am not sure whether the creation of these indices alone will generate lots of activity, because we are also seeing, at the same time, a big push towards private placements in the ILS market, where they are not going into a public 144 A type context, and there you can use any type of structure you want. You do not necessary need to use a third party index. The whole issue about the index is about who takes the basis risk - does the sponsor take the basis risk, or the investor?

Georg Stucki

We are not really investing in start-ups. We need from managers at least a two to three year track record and assets normally beyond \$100 million, before we may consider them a potential candidate for an investment.

Stefan Heieck

We prepared our launch in the second half of 2008. It was quite a difficult time. What I hear again and again is that one always needs a lot of seed money from day one. What I believe is that one should take a step back, wait for the first 18 months and focus purely on performance. If you are transparent and liquid money will come.

Dr. Tilman Keese

I would like to take this up.

Given the financial crisis, investors become more selective. They become more differentiated. The key driver, as mentioned, is performance. It is number one. And being an established player is number two.

A lot of investors are looking at those managers which have done well over the last three, four years – and those managers get more of the money. The industry becomes more concentrated among the top.

On the supply side, there is going to be a lot more start-ups. There is still an overhang in the financial service industry,

especially in Switzerland, US and UK. So there will be many more spin-offs and start-ups etc., but they will find it very hard to attract seed capital and to grow their business, as demands from the regulatory and business side rise. The industry is becoming more fragmented, more skewed towards the established and performing funds. This is a consequence of the current environment.

Dr. Tilman Keese



And lastly, these very high profile launches with \$100 million plus are very rare nowadays.



Marcel Jouault: Today's Investors are looking a lot more behind the scenes and cost structures of a fund. If you are running \$20 million AUM, have six employees and three sales guys, expensive offices in Geneva or Zurich, your fund is down double digits YTD and you are asking 2% for management, you might as well not even go out there pitching investors. They will look at your operations and if you are transparent on the numbers. Fancy sales brochures and shiny offices don't buy institutional investors anymore.

Marcel Jouault

Joe Taussig: The trend since the crisis has clearly been that the vast majority of inflows are going to the largest funds. It is not even debatable. The problem is, to paraphrase Lord Acton, size kills and absolute size kills absolutely. We saw this in the 70s; I was then the CFO of a trading firm and as we reallocated to our best traders, the returns diminished. The whole department went up because we had laggards, but as we trebled the assets for the best traders, they started losing money.

The best managers guard capacity jealously and I do not see that happening. That is why when something like John Paulson is happening - where he has just gotten so big he cannot get out of his own way. Buffet has got the same problem. Buffet's returns for the last 10 or 15 years have not been very good.

There are a lot of studies on smaller newer managers outperforming by a significant amount over time, that are thinking that all the money has been allocated to managers who have hurdles of \$100 million and been in business for two years. Investors will get tired of getting the lousier returns and they will start migrating to small younger managers.

Joe Taussig



Also, regulations like the Volcker Rule are going to eject all kinds of talent out of the banks, at least in the United States. And people like Blackstone are seeding at \$100 million at a crack. A project manager for one of our re-insurance companies, Third Point Re, quit mid-deal because Blackstone gave him a \$100 million to leave Third Point and to start his own fund.

Benedicte Gravrand

Marcel, could you tell us more about Pfäffikon and how it is evolving as a financial center?

Marcel Jouault: Before 2008, we had humongous growth and the canton was overwhelmed with the success of new funds of funds and assets growing. The crisis and Lehman collapse also hit Pfäffikon.



After the crisis Pfäffikon and Canton Schwyz made themselves even more attractive to funds – lowering the taxes again for the 6th year in a row introducing the lowest taxes in the country. Compared to Zug and other low tax cantons, Pfäffikon is very close to Zurich, so it was an easier sell in London and other places. Even people who accidentally ended up in Geneva paying 45% tax are now considering a move to Pfäffikon. Maximum income tax here is 19% total!

Marcel Jouault

Let's not forget we are sitting next to \$100 billion in FoFs money!

Since 2009, a business promotion team in Canton Schwyz is helping funds get established, doing the tax deals and helping with tax structuring. For the last two years, we have attracted quite a few funds and other asset managers. PFC was born out of the idea to attract smaller managers to Pfäffikon who do not need huge offices but a complete infrastructure to start their fund.

Benedicte Gravrand

Do you expect more people to come here?

Marcel Jouault

This year we started with five hedge funds and quite a few service providers around that - brokers, and a family office. For next year, we also have one American company taking care of US clients - because that is a big issue in Switzerland, everybody is trying to get rid of US clients. This company has a very attractive legal investable structure for them.

If anybody is making money or planning on making money, the best place to be is in Pfäffikon, Canton Schwyz. Especially now, at the end of the year, everybody is trying to get out of the high tax cantons. If you move from one canton to another before the end of the year, you pay your taxes for the year in the canton you've moved to. So anybody who has performed this year is thinking about a move now.

Marcel Jouault



Benedicte Gravrand

For those who work here in Pfäffikon, can you tell us about the advantages and the disadvantages of doing so? And for those who do not, do you ever come to Pfäffikon?

Dr. Tilman Keese

Pfäffikon has many advantages. Infrastructure-wise it is very good. You can trade, you get office facilities. It is easy to connect with other locally based managers, and I think Pfäffikon has a certain positive legacy in terms of alternative strategies with Man Group, RMF, and LGT being around the corner.

On the downside, networking with investors could be better. I think it is easier if you have a rep office in Zurich, you are closer and you can connect easier. This is something which we sometimes miss. But then Zurich is only 20 to 30 minutes away from our place.

Ronald Angst

We have been here since 2006. Personally, I have been here since 1995. Tax advantages and especially the goodwill of the authorities are very important. They really understand what business means. A

disadvantage I see is that there is not a good bar in Pfäffikon.

Marcel Jouault

We are working on it.

Stefan Heieck

When we set up the fund, we said, first of all, it is important to make some money and then we can think about taxes. That is why we decided to be in Zurich. I agree with Tilman that for our product and our fund it is very important to be very close to the companies. The company meetings normally happen at our office being based in the centre of Zurich and close to our office is the SIX stock exchange.



Dirk Lohmann: We chose Canton Schwyz – we are based in Freienbach – for a couple of reasons. One was the corporate tax. Not all of the employees live in canton Schwyz. I live in another canton.

Also from a convenience perspective, the direct rail connections to Zurich and to the airport are quite helpful. We do have to go into Zurich quite often for meetings, but it is manageable and at the same time it is also easy for clients or brokers who are visiting Switzerland to come to Pfäffikon. So we do not see any problem there. The downside would be, as Ronald said, there aren't many places for socializing here. And although there are a lot of people here, I do not see the clustering actually happening between firms; everyone is in their offices and then leave.

Dirk Lohmann

Georg Stucki

We have our offices in Zurich mainly because our clients prefer Zurich and want to have their meetings close by.

Walter Pfaff

LGT came here about ten years ago. We were in the round one of the very early movers. Developments have been tremendous not only in the last years, but if I look back at the infrastructure we had in 2001, there is a very big difference now. One advantage which we really see concerning the Switzerland traffic situation, we have people coming from various other regions moving over here which is easy; moving to Zurich is very manageable too.

Benedicte Gravrand

Can you tell us more about developments in asset allocation at LGT?

Walter Pfaff: We saw big changes in the markets. On the institutional side, portfolios have lower risk budgets and investors getting more risk averse. But we try to keep with our long-term strategy whenever it is possible and feasible with the constraints of the clients. A long-term strategy is currently even more advantageous than about ten years ago, because a lot of people are very short-term and really miss out on the long-term opportunities; people are favoring very liquid asset classes and no longer focus on illiquidity premiums. The constraints of investors have to be feasible, but if you are a really long-term investor, the opportunities are nowadays bigger than before.

Walter Pfaff



Benedicte Gravrand

Would anyone like to comment on long-term opportunities and investors being short-term?

Georg Stucki

In our asset allocation, we are conservatively positioned. Compared to our equilibrium, we currently have low equity exposures but across almost all markets. If you have picked the right manager, he will find the attractive opportunities, which exist in all markets across the globe.

On bonds, we are relatively lightly positioned. We keep a lot of cash. In the hedge fund world, we are exposed quite broadly across strategies. For us, the most important thing is to have the right manager, the one out of twenty. And this is a very onerous task.



Stefan Heieck: I heard many times over the last two years you have to be UCITS and you need to have daily liquidity. I do not believe in either UCITS and the need to have daily liquidity. We are Cayman-based and we offer monthly liquidity. I always say the first thing you learn if you make an apprenticeship as a banker, is the golden triangle of return, liquidity and security. You cannot believe in achieving a potential 15% annual return while at the same time offering daily liquidity. This is a perfect mismatch.

Dr. Tilman Keese

In the current post-Madoff regime, the asset allocation will take two streams.

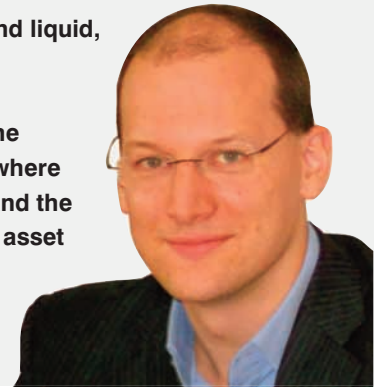
On the one hand, allocators will look for liquid strategies on both market and product level. On the other, anything which is rather illiquid and trades at a liquidity premium, these strategies - like insurance-linked securities or private equity - need to be able to demonstrate that they can earn an extra return.

In the end, it is a barbell concept. A fund needs to take a decision on being transparent and liquid, or not. Both strategies will attract money over time.

For funds with a mixed bag of liquidity, however, it will become more difficult.

The current situation is a result of the bad experience during the financial crisis. Before the crisis hit many fund had extended its investment maturity and had drifted and into areas where they did not have a real edge. In many cases you ended up with gates and side-pockets and the respective losses. Today a manager needs to earn money by means of market timing and asset allocation based on a universe of liquid instruments. But this is what Managed Futures is all about.

Dr. Tilman Keese



Georg Stucki: On liquidity, I tend agree with Mr. Heieck. There is an important issue with all these UCITS and frequent liquidity products. If we pick a manager who offers both, I do not really want the daily / weekly liquidity offering to be more than 20% of the total assets. It tends to distract most managers, especially those who are used to monthly or quarterly redemption features and those who do have longer investment horizons for their investment strategy.

Georg Stucki

Maximilian Spiess: Whereas Mr. Stucki might have the flexibility to do so other institutional investors do not; they have to tick 20 boxes and if there is no UCITS, they cannot invest. That is very simple.

Unfortunately, overregulation has led to this environment and that is what we have to deal with. If you are not UCITS, you might loose out on some clients, even bigger ones.

Going back to what Mr. Pfaff was saying, I totally agree that daily liquidity has become very important and "sticky money" has become rarer.

Maximilian Spiess



Walter Pfaff

When we conduct full due diligence on funds, we are always interested in who the co-investors are. If we see funds with daily liquidity, we see co-investors who are very not sticky, who would go in and go out and cause a lot of transaction costs, and a lot of operational overhead. We prefer funds which are less liquid, because they act like a filter through which only really long-term investors co-invest.

Joe Taussig: There are a couple of issues on liquidity that are important to remember. If you have a bunch of ideas and you rank them one through “n”, you have to look over your shoulder as to what your redemption profile is. If one of your best ideas does not have that kind of liquidity, you may not allocate to that best idea. The evidence for that is, with the exception of CTAs and probably Forex, global macro.



Managed account platforms like Lyxor and Deutsche have almost always underperformed the actual funds run by the same manager. Because the manager, when he has longer-term money, will allocate to this best ideas without worrying about liquidity. When you get a UCITS with weekly, daily type liquidity, you are destined to underperform not just because of the higher costs, but also because of the actual way you manage assets with the talent.

Joe Taussig

The other problem is, co-investor risk is a real risk. You really have to look at where your sources of funds are. If you have a lot of fund of funds money that has offered monthly liquidity, because they generally cannot raise money unless they offer it and they certainly cannot get money out of Swiss banks. The most bizarre one was the asset-based lenders. I just could not believe it; all of them promised monthly liquidity because they could not raise money from the Swiss private banks, and all Swiss private banks had the problem –so you can get all private banks, just Swiss ones, because the clients can take their money out on a very short notice. So, everybody is guarded that we do not want to have one-year lock-ups etc.

I can go to the other extreme. When we were raising money for Greenlight Capital Re, we debated as to how long we would promise relative to going public or IPO. Now, insurance is an interesting business, because you can actually IPO a start-up. I have been involved with three: Partner Re, Annuity & Life Re, and Scottish Annuity. And I have seen three others that I was not involved with, one of them being ESG and Lancashire and another one. The smallest of all those was a quarter of a billion. So, you can actually raise money on a start-up. There is not a lot of burn rate. Greenlight has got \$2.5 billion in assets and 21 employees and it is not going broke from salaries and electricity.

Having said that, we debated whether to try to IPO the company within a year, which we think we could have done. We promised three years, and we did it in two years and nine months. If we had promised a year, we would have had more than three times as many yeses as we had for three years, because the long lock-up was a real negative for people. The reason we did not do the one year is because Einhorn was always capacity-constrained and he would have had to kick people out of his funds to create the capacity for the insurance company if we wanted to IPO it early and do a much larger number.

But I cannot go into the other companies, but it's the same kind of thought process that has always been “how long before the liquidity event takes place,” which has a huge bearing on the number of yeses that you get people to do or not to do.

Dirk Lohmann

On the liquidity issue, our original product was an offshore Cayman fund, which has more traditional type, offshore type liquidity terms to it and we created the UCITS fund, which is a very much radically slimmed-down version of our offshore strategies simply because of the requirements of what assets are allowed within a UCITS context.

The set-up of the UCITS fund was in response to client demand. I am not so sure it was really liquidity, although under the UCITS, we offer the liquidity that is required, which is in our case is twice a month. We think we can manage with the assets that we have within that constraint.

Dirk Lohmann: The real driver for establishing the UCITS fund was regulatory capital treatment of the investment. Our UCITS fund only invests in bonds issued in accordance with Rule 144A or Reg S and doesn't use any leverage so some of our institutional clients take a position that it is a bond fund and therefore it does not have the same capital treatment as a hedge fund does.

A lot of pension insurers and pension funds are under extreme pressure because of the proposed capital changes that are supposed to be implemented on what are called alternative assets, which often come in a hedge fund format.

These higher capital charges for alternative investments is a concerning development simply because the regulatory capital treatment is actually pushing institutional investors into investments that are probably not in the best interest of their own ultimate beneficiaries.

Dirk Lohmann



Our offshore fund is technically viewed as a hedge fund. We do have some leverage, but it is like 1.2 maximum. We do not borrow money, it is just structural leverage.

Joe Taussig

Dirk, is the UCITS in the fund run pari passu, all instruments in the same propositions or do you have to adjust for the liquidity?

Dirk Lohmann

No, the funds are clearly separate. I mean our offshore product has a larger range of assets that it can invest in. It has life insurance securitizations (some of them are 144A, but with rather illiquid secondary markets); catastrophe bonds and private placements; swaps; and futures. Among those instruments, the futures could technically be done under the UCITS. Everything else in the UCITS fund is just 144A bonds. Because we operate with a much more limited universe, the two are not mirror images of each other.

To clients who have a choice and no liquidity constraint, we recommend they go offshore, because we believe that they can actually get superior risk return performance there. We expect that the UCITS fund will have similar returns but the risk in the tail end would be much more concentrated. As a consequence you take a lot more risk when you limit your universe.

Joe Taussig

Stefan, I was confused, because I agree with you on your comments about the liquidity, but also I heard you say you turned your portfolio 20 times? Is that a day or a month?

Stefan Heieck

It is year-to-date.

Joe Taussig

Year-to-date 20 times so far. So, you should not have problems with monthly liquidity then?



Stefan Heieck: No, I could do daily liquidity, but then I would have the same issues that have been mentioned before. I have a performance target of 15% p.a. and I strongly believe providing daily liquidity in continued volatile markets that target would not be achievable with a UCITS-compliant fund. It is just a mess. So, maybe I then would have to reduce my performance target to 7% p.a. Maybe I should do it in the future, but I strongly believe I can do 15%, with a third of the market volatility, and it is our philosophy and we will not change our risk management.

Stefan Heieck

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