Horizons Family Office & Investor Magazine

Issue 07

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Masterclass forNextGen

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Welcome to the Summer 2021 issue of Horizons!

In this issue we have included three in-depth features with leading fund managers and investors. We start with **"Alpha in Africa"**, where **André Steyn,** a Cape Town based manager I have been following since 2011 who also gained global recognition as "Africa's leading short-seller", describes Africa's multidecade growth story and how *"global investor apathy"* leaves this outstanding investment opportunity to few on the ground managers. Across the Atlantic we find **Heeten Doshi,** CFA, in New Jersey where he and his team run a market timing strategy which with a live track record of almost nine years defies conventional wisdom that you cannot time the market.

I then discussed the problem of **Alpha Erosion** with two eminent investors: **Panayiotis Lambropoulos**, CFA, CAIA, FRM, is a Portfolio Manager at the Employees Retirement System of Texas and **François-Serge Lhabitant**, a Professor of Finance at the Edhec Business School and Visiting Professor of Finance at the Hong Kong University of Science and Technology; as investor he directly oversees a multi-billion portfolio allocated primarily to hedge funds.

We also take a look at **BeeWyzer**'s unique **Masterclass for NextGens** and Arnaud de Coninck from **Trusted Family** explains **how to keep family offices secure**. **Darius Sit** is joining us from Singapore, making the point that investors should learn about **market structure of cryptocurrencies** before taking the plunge.

We now live, we are told, in a **VUCA world** and need to cope with volatility, uncertainty, complexity and ambiguity on an individual but also on societal and organizational levels. **Socrates** died in 399 BC but as 21st century philosopher Christoph Quarch finds out, he has some good answers also to today's challenges.

Wine is a passion investment that you can always drink even when it doesn't perform, however with **Bettina Kurz'** advice, **buying a winery** can also be a financially rewarding decision.

Cheers to that!

Matthias Knab
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André Steyn: Global investor apathy leaves Africa's multi-decade growth opportunity to few on the ground managers

André Steyn

André Steyn (andre@steyncapitalmanagement.com) is the CEO and Portfolio Manager of South-Africa based Steyn Capital Management, which he founded in 2008. From 2004 to 2008, André was the CEO of Temujin Fund Management UK, the UK arm of a billion dollar New York based hedge fund. At Temujin, André was responsible for all non-US investments comprising a long/short portfolio of approximately USD2 billion.

From 2002 to 2004, André was an investment associate at Ziff Brothers Investments, a multi-billion dollar hedge fund. At Ziff Brothers, he performed fundamental research for the purpose of recommending new investments for the firm's capital, and generated significant alpha by shorting companies with poor earnings quality.

André began his career at Andersen in 1998, completing his Chartered Accountant articles in Cape Town before transferring to the New York Mergers & Acquisitions practice where he advised companies and private equity funds on acquisitions. André is a Chartered Accountant and a Chartered Financial Analyst.

Steyn Capital has been investing in African markets since 2009, and manages over $700 million in South African long/short, and pan-African and global frontier long only funds. All of these mandates are managed with the same value orientated intensive research focus, and all have outperformed their respective markets since inception, with little to no overlap between each other. The company has a team of 16 with 10 on the investment side and 6 on the operational side.

Africa is the fastest-growing continent on the planet. From 2000, half of the world's fastest-growing economies have been in Africa. By 2030, more than 40% of Africans will belong to the middle or upper classes, increasing demand for goods and services. Household consumption is expected to reach $2.5tln, more than double that of 2015 at $1.1tln.

Private wealth held in Africa amounts to approximately USD 2.0 trillion as at December 2020, with South Africa, Egypt, Nigeria, Morocco and Kenya forming the "Big 5" wealth markets, accounting for over 50% of the continent's total private wealth.

Steyn Capital Management is an established African and frontier markets focussed equities investor located in the Winelands surrounding Cape Town, South Africa. The firm has been investing in African markets since 2009 and manages more than US$700m in a South African long/short fund and pan-African and global frontier markets long-only funds.

We're speaking with founder André Steyn who has also been featured in an Opalesque VIRTUAL MANAGER VISIT at his Cape Town office recently.

Matthias Knab: André, you have a different starting point in the investment industry, please tell us about that, and highlight the benefit of that background to your current strategies?

André Steyn: I started my investment career as a dedicated short selling analyst at Ziff Brothers Investments, where I applied forensic accounting analysis to ferret out short selling opportunities. This is almost certainly different to any other African or Frontier markets investor. This early experience has led to our excellent fundamental short selling record at our long/short fund in South Africa, where we have added over 400% of cumulative alpha on the short side over 12 years. Being a good short seller is also an advantage on the long side, since you can avoid buying potential "short sales". Very early on in our investment process, we invert and run all of our potential longs through our normal short selling process. This is also a great method to increase our return on time, since we organize our research process into a 15 step process, and we stop work and move onto the next idea immediately when there is something that is a deal-killer.

Steyn Capital is all about applying developed market research techniques learned during my time at Ziff Brothers Investments and Temujin to identify and take advantage of market inefficiencies. This is why we gravitate towards African and other frontier markets, where is it still possible for intensive research to generate a fundamental edge in a variety of unknown and unloved equities.

Matthias Knab: What opportunities are you seeing across African markets, and can you give me some examples of the market inefficiencies you are seeing?

André Steyn: We are currently targeting investments in franchise consumer businesses, including several of the dominant brewers across African markets, which sports market shares of over 80% and has volumes growing at multiples of developed market beer producers. We also have investments in mobile telecoms with strong FinTech businesses, some of them with de-facto monopoly positions. Lastly, we invest in owners of irreplaceable assets like container ports with excellent pricing power and the ability to collect royalties on African growth over long periods of time.

Having spent a decade investing in Africa, we've been able to cultivate a network of relationships and brokers across the continent who send us the flow. One benefit of the investor apathy I'll be happy to talk more about is that it has really provided us the opportunity to take advantage and build meaningful positions in these dominant, high quality businesses.

One recent example of this extreme market inefficiency was when we acquired 7.5% of Heineken's business in Rwanda from a fund that was liquidating. While the stock was trading at RFW100, we bid RWF50 for the entire block. Subsequent to our purchase, the company reported earnings up almost 100%, in-line with our expectations, more than doubling the stock price again.

While we think that the market inefficiencies will persist, we don't think the investor apathy here will be permanent. The opportunity set is compelling and anecdotally, we have run into several large sovereign wealth funds who are becoming increasingly interested in investing in the continent.

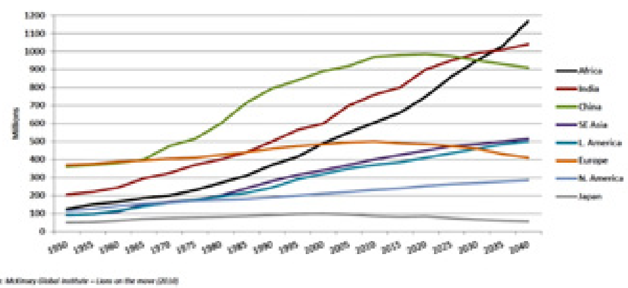
Matthias Knab: Looking at the macro picture, why should investors have an allocation to Africa?

André Steyn: Africa has excellent demographics, with the number of working age adults expected to increase from 700 million today to well over a billion by 2035. This is in sharp contrast with the majority of the rest of the world, which is seeing declines in working age populations going forward.

Large and rising working population =

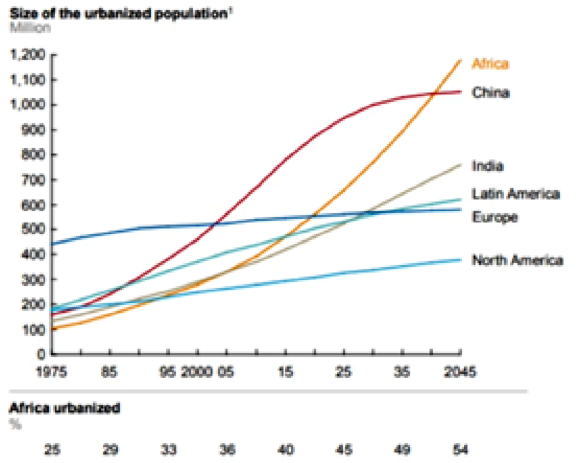
- Middle Class Expansion
- Consumption
- Urabanization

Working-age Population



The implications for future demand for infrastructure and consumer goods is clear. Africa is also seeing rapid urbanization with 25 million people a year moving to cities, which is a further driver of built-in demand.

- Africa accounts for 20% of global population, but 3% of GDP
- Africa is least urbanized continent at 43% urban population
- Urbanization drives 24 million people a year to African cities
- Household consumption to grow to $2.1 trillion by 2025



Africa is also home to 30% of the world' natural resources, much of this unexploited and only now coming into focus for international investors.

- 70% of the world's phosphate reserves
- 50% of the world's cobalt reserves
- 40% of the world's gold reserves
- 30% of the world's bauxite reserves
- 12% of the world's oil reserves
- 8% of the world's natural gas
- 7% of the world's copper reserves

Africa holds 60 per cent of the world's uncultivated arable land

Given this highly positive demographic backdrop, you would be surprised to learn that African investment markets are extraordinarily undervalued, as a result of investor apathy. Our Africa fund is now trading at approximately 6x EV/EBIT, which is close to the lowest valuation over the decade that our fund has been investing. The key difference this time around is that our concentrated portfolio of 17 high conviction names is the highest quality that it's ever been. The portfolio generated a ROIC of 55%, and has a weighted average market share of almost 70%, illustrating the market dominance of these businesses.

The multinationals we speak to about their African businesses see this as a multi-decade growth opportunity, and we are very excited to be a part of this.

Matthias Knab: What is your investment process when you invest in Africa?

André Steyn: I believe that we benefit from four competitive advantages. Firstly, we have created a proprietary investment screen where we have a team of three idea generation analysts who comb through source financial statements, cleaning up the extraneous earnings items and adjusting for hidden assets and liabilities to give us a great starting point for further research. Our team has over the last decade created a proprietary universe by eliminating all lower quality businesses, including most extractive industries, and ending with a screen comprised of only 500 super high quality African business, all of which is updated by one of our idea generation analysts for new earnings announcements.

Secondly, we focus on high quality companies that are not recognized or priced as such. Frontier markets investors tend to focus on the bigger index constituent names, whereas we have been generalists for 20 years looking at hundreds of different business models. We believe that we have an uncommonly good understanding of what makes a superior business, and we have been consistently paid by owning these.

Thirdly, we apply the forensic accounting and value added research skills learned at Ziff in order to avoid pitfalls and generate a true edge into our holdings. There are many ways for public companies to massage reported earnings numbers in order to hide fundamental weakness or strength, and it is one of our key skillsets to identify this and convert reported results into economic reality. Companies that hide fundamental weakness with accounting tricks tend to miss reported earnings with great regularity, and so it is important to avoid these on the long side. Value-added research means not just talking with the management team, but conversing with customers, competitors and suppliers to gain a true edge into the business.

Lastly, we size our funds appropriately in order to be nimble investors in these smaller markets. We have a demonstrated track record of closing our funds to new investment in order to preserve the opportunity set for existing investors. Notwithstanding, our funds have sufficient size in order to afford top notch research and operational talent and investment. Given the exceptional opportunity set in Africa, our funds are currently open to investment, with remaining capacity of approximately $400 million.

BeeWyzer: A Masterclass for NextGens

Peter Brock

Recently elected as one of the global top 40 family office service consultants by Family Capital. Peter led the EY (Ernst & Young) Family Office Services practice in EMEIA (Europe, Middle East, India, Africa), where he focused on the areas of family office set up and structuring, family governance, holistic wealth management and transfer to the next generation of accounts reaching up to 5 billion US$. He draws a wide spectrum of experience from his previous posts both in corporate finance at HSBC Trinkaus as well as private banking at Sal. Oppenheim.

He is also an expert in entrepreneurial direct investments from evaluation to transaction execution. This unique combination has made Peter the go-to person for small and mid-cap business owners, looking for advice in matters of wealth and succession planning including M&A transactions. He is currently involved in founding the Federal Initiative for Impact Investing in Germany.

Christian Stadermann

Founder of Logos Patrimon, first mover in the GSA region (Germany, Austria, Switzerland) to offer virtual family office services. Based on his professional experience of 25 years Christian helps to shape an innovative form of wealth structuring and management for ultra high net worth individuals (UHNWI) and single family offices. He has long been an asset management expert in controlling, risk management and product selection. In that capacity Christian acted as a German BaFin licensed managing director at HQ Trust, a platform of the Quandt family.

His prior experience includes the UHNWI business at Sal. Oppenheim and Credit Suisse in Zurich. Christian started his career in equity sales and private wealth, heading the International Private Banking Center of Deutsche Bank in Frankfurt.

Christian Stadermann and Peter Brock are the co-founders and managing partners of BeeWyzer, a financial education company and new video learning platform for better wealth structuring.

The BeeWyzer NextGen Masterclass is an independent, holistic and enabling tool for NextGens and families of wealth to learn the

most important issues about wealth structuring and wealth transfer across generations, ranging from family governance to strategic asset allocation and controlling / risk management.

Matthias Knab: Congratulations on your newest product, the [BeeWyzer NextGen Masterclass](). I took a look at your content and think it's truly unique. I haven't come across anything comparable in terms of the range and quality of content and the concept where apart from online learning your students have also access to tutors – real people – and can attend a yearly live event in Berlin.

Could you briefly give us an overview on the Masterclass?

Christian Stadermann: The **[BeeWyzer NextGen Masterclass]()** has been designed to be a wealth enabling journey for NextGens where they can bridge the gap from investment and asset management knowledge to psychological and structural conundrums of a wealth transfer process. It helps them to become independent from consultants who are not independent.

The Masterclass covers a total of 9 modules plus 3 bonus modules with more general knowledge subjects ranging from liquid and illiquid assets to current trends in the financial services market.

In Module 1 we introduce you to **generational conflicts** that will inevitably come up in a wealth transfer process. Clearly, it is important what you inherit. It could be your mother's jewelry collection or Rolex collection. Your father's stake in a business to stay in those traditional pictures or it could be a huge pile of cash that you are suddenly or overtime confronted with, and you will have to deal with it.

With BeeWyzer we suggest **a structured and proven framework to deal with those generational issues.** And, don't forget: the most important thing probably is to communicate. Communicate within your family. Talk about it. Raise any issues that you may have early. Do not sit back and wait until somebody else addresses it. So, don't be shy – the issues you are confronted with are totally normal in every family of wealth, and it is not rocket science.

Peter Brock: Right, the first module is on generational topics, addressing any possible family conflicts around inheritance. In Module 2 Christian zooms in more into the BeeWyzer Method: this is our innovative **holistic balance sheet** approach. Besides the value of the family business or any other entrepreneurial activities, we recommend you to add all Private Assets like cash and equity/bond portfolios, but also both your Human and Social Capital, as well as your family value.

YOUR WEALTH BALANCE SHEET

1 Company Value	2 Private Wealth	3 Human Capital	4 Social Capital	5 Family Value
+ Enterprise value = break-up value vs M&A valuation	+ NAV[1] of all private assets, adjusted for liquidation risk of illiquid and value at risk in liquid assets	+ Your qualifications counted as av. annual salary income in future years discounted to NPV[2]	+ NPV[2] of social network and impact based on intuitive BeeWyzer formula	+ Establishing a family governance, calculated as opportunity cost
- Financing, hidden liabilities, investment backlog	- Liabilities, imbalances and structural inefficiencies	- Missing knowledge or disruptive industry exposure	- Reputation risk or loss potential	- Lack of family values resulting in emotional conflict

[1] NAV: Net Asset Value
[2] NPV: Net Present Value

After that I cover a deeply personal issue in Module 3: **which journey are you deciding to take within your family context?** Do you have the right competencies, and what are you burning for? Would you like to embark on a personal journey managing the company or your family's entrepreneurial activities or – alternatively – is it your focus to manage your or your family's wealth? The third alternative would be to spend at least some time outside the activities of the family, so you might want to embark on a more independent journey – at least for some time, possibly returning into the family activities at a later point in your career!?

These thoughts are followed in Module 4 by presenting solutions via a good **family governance as well as corporate and wealth governance**, structuring your family system. This part is crucially important, as any governance framework provides

you and other family members with clarity and structure, as *there is no need to reinvent the wheel in every generation.*

Christian Stadermann: Having looked at some of the inter-family issues, we guide you through a selection of important **issues around structuring your wealth** in Module 5. We explain all you need to know about **Strategic Asset Allocation** and how best to find the right organizational structure to organize your wealth.

Module 6 is about implementation. How to prepare, take and implement decisions, and how to pick good service providers and products. Following on, Module 7 covers **sustainable investing approaches** from ESG up to impact investing and Module 8 is about controlling, the understanding of **performance measurement after cost and risk management.**

The final Module 9 in a way sums up your journey so far and covers how you best combine your personal competencies with your **personal roadmap** in your wealth management journey.

On top of the main modules, you will get two more basic **modules on both liquid and illiquid investments,** where we describe things like stocks, bonds and ETFs, but also **direct shareholdings and private equity / venture capital investments and funds.** The third bonus module talks about current trends in the financial markets that you should know.

In sum, the BeeWyzer Masterclass is an independent learning program for better wealth structuring. It is enabling: besides worksheets that allow you do repeat and deepen the knowledge from the videos you find additional, powerful tools. These are designed being applied to your own situation and produce excellent results even without studying financial math. And it's holistic, covering all asset classes and all dimensions of your wealth.

As you know, the financial services industry doesn't always look at your wealth on a holistic basis. But we would want to stress the point that it's important to look at your wealth on a holistic basis as a NextGen or a modern wealthy individual. We at BeeWyzer are totally and truly unbiased and independent with no intention to offer you anything else than this opportunity to invest in yourself with this Masterclass.

Christian Stadermann: In our process and our materials, we mix hard facts with emotional and psychological issues because the two go together – without touching on both of them, the generational wealth transfer process will never work out nicely.

Matthias Knab: Tell me, how long is each module, are they all equally long or what's the kind of median? And how long is the whole course?

Christian Stadermann: Overall across all the 12 modules (9 plus 3 bonus modules), our participants can access more than 25 videos, with each video having an easily digestible length of 10-15 minutes. In aggregate this is around 5 hours of video content, and then you'll also get the worksheets for additional reading together with additional tools that allow you to apply the knowledge you've just learned to your individual situation.

Some of these tools allow you to type in your own figures, for example when you create your own wealth balance sheet and strategic asset allocation. Other applications include checklists how to deal with service providers in a practical way. Remember that we at BeeWyzer do not intend to replace your current or future advisers – we have no intention to pinch the work from them. We simply want to make you more knowledgeable, empowered and in a controlling position when dealing with them.

The whole journey will take about 2 to 3 months to complete by just spending some time every week, as we release the material week after week. ...it is a true learning journey – a wealth enabling journey!

Matthias Knab: **All right. I understand – sounds like a very thought-through program.**

Peter Brock: And it's self-contained. That is really important. We are offering a complete and practical learning experience. We do not want to sell advice that costs extra at the very end, as for example some youtube bloggers do. Therefore, interactive and live Zoom sessions are already included during the Masterclass in order to help students and, of course, get feedback.

The course can be done either individually or in a group starting all at the same time. Our intention is to start the course / a cohort twice a year. So it is even possible to get to know other participants and share experiences in a confidential environment, for example during Zoom session or webinar.

Matthias Knab: **Why have you started BeeWyzer in the first place?**

Christian Stadermann: Yeah, the main reason that we founded BeeWyzer is because there was no BeeWyzer ;-)). If you look at the financial training market, there are enabling trainings usually only for a very limited subjects from the financial markets and specific investment themes, like "How to become a good ETF trader", or so. Any more detailed courses on holistic wealth and organizational matters are usually done via in-classroom teaching for some days in a row. This was already inflexible before the Covid pandemic, as there is a lot of stuff normally in such courses where you just sit-in but read messages on your mobile. These trainings are usually rather academic and not enabling.

BeeWyzer is designed completely differently: Holistic, independent and enabling. It really brings wealth owners back into the driver seat of steering their wealth, allowing them to talk to professionals on an equal footing.

Peter Brock: We are sharing our more than 50 years of experience in banking and the financial services industry, and we simply wanted to share this know-how with interested people.

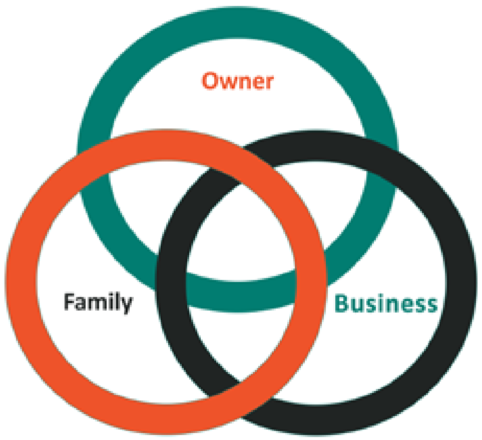
The financial services industry is not ideally structured to reinvent itself and respond to new demands and trends, no? As we are freely operating as individual family office advisers, with BeeWyzer we can share our experience with a lot more people and make a contribution to financial education that is still lacking across the board globally.

Matthias Knab: **Since the dot com boom of the late 1990 until today we have seen a lot of people who have become centi-millionaires and billionaires. You could could assume that if they have managed to get rich, they should also have be able to organize their wealth. What can go wrong?**

Christian Stadermann: There are actually two dimensions where things can go wrong when you look at long term financial success. One is the entrepreneurial side of things: when you are a successful entrepreneur, of course, you know how to get on with your finances generally. But you will be an expert in your industry and normally not know about the ins and outs of the financial services industry. Even if you are a good negotiator about fees with bankers, you do not really understand the cost-side of your counterparty and either be too tough or too generous.

And the other thing is the emotional side: transfer of wealth across generations by definition takes time and patience. And it's often being said that families of wealth constantly have to take decisions in the Bermuda Triangle of wealth, power and love. And that's really a Bermuda Triangle, because once you're in, you will always stay in. Then you need the ability to look upon your situation from above and understand structural issues in order to take wise decisions – otherwise you might lose a lot of time and money in legal issues and you will destroy wealth without having to.

The 3-Circle Model:



Peter Brock: And also, not every great entrepreneur is also a good stock picker or investor, you know? And regarding the NextGens, they are also not always talented wealth managers – some prefer to be artists or be in very different professions. But still they will be confronted with the wealth and simply will have to deal with it. Clearly wealth also comes with a duty, with a duty to care. For many NextGens this increasingly means that they want to invest sustainably and preserve the wealth for the family across generations. Simply put, any NextGens in a family of wealth need to know the basics in order to deal with the financial services industry and use it to their advantage. The BeeWyzer Masterclass helps you to achieve this goal and prevents you from being fooled.

Matthias Knab: Can you specify a bit further who target with this Masterclass?

Christian Stadermann: The ideal target client is a NextGen, but aren't we all NextGens ? ... well... he or she may be 20, 30, 40, 50 or sometimes 60 years of age, whenever you are about to inherit or have just received a pile of cash or assets. There is clearly a lot of demand for this kind of training all around the world, as we spoke to many family offices that could need it. Even employed family officers of large families like it, as it assists them in their NextGen education work. For smaller families it may be the number one program to get this done.

Peter Brock: If you think about it, some people spend more analytical skills and endeavour in picking their new car than in organizing their wealth – this has to stop, and so we invite everyone who sees value investing in your own wealth enabling journey to join us at the BeeWyzer NextGen Masterclass.

Christian Stadermann: Right, the financial industry is undergoing heavy changes and in the future also from their side the realization will come that it is much better to deal with knowledgeable clients rather than staying a secretive club-style community.

Market Timing: Defying conventional wisdom

Heeten H. Doshi, CFA

Heeten H. Doshi, CFA is the founder of Doshi Capital Management, a private investment management firm where he manages the Doshi Systematic Strategy Fund. He also worked as a senior equity strategist in Brown Brothers Harriman's Portfolio Strategy team, where he focused on the US economy, equity market and sector/industry investment recommendations. Before that he worked at Morgan Stanley as a research analyst where he conducted bottom-up fundamental analysis covering the transportation industry and at Lehman Brothers where he was a fixed income trader, managing Lehman's loan risk exposure through the use of loan sales and derivative products.

Heeten received an MS in Accounting from the University of Illinois and an MS in Management from Babson F.W. Olin Graduate School of Business and has obtained the CFA designation.

Heeten H. Doshi, CFA is the founder of Doshi Capital Management, a private investment management firm where he manages the Doshi Systematic Strategy Fund.

Together with this team, Heeten runs a market timing strategy which with a live track record of almost nine years, defies conventional wisdom that you cannot time the market. While market timing may not (yet?) work on a daily basis, he believes that his nine years track show that with the right data and algorithms you might as well succeed in identifying risk on and risk off market periods on a weekly and monthly basis.

Based on 7.5 years of fine-tuning and trading prop capital, the strategy opened up to outside investors in 2020, ending up 147.5% that year and continuing its positive run in 2021, up over 9% YTD by mid July.

Matthias Knab: How would you describe your strategy and its benefits? And can you also tell us how you developed it and how it has evolved over the years?

Heeten Doshi: My investment approach has been formulated on the back of the 2000 dot-com and 2008 housing crisis with the aim to allow investors to stay invested through cycles through a diversifying, absolute return strategy. The **algorithmic model – both contrarian and momentum – brings together several investing disciplines into a multi-factor composite that forecasts short to intermediate-term risk on and risk off periods of the market with the aim to grow and preserve capital in any market environment:** True diversification, but without giving up performance.

I founded Doshi Capital Management in 2011 with the goal that investors should be able to generate absolute positive returns regardless of the market environment or the economic environment. Our view and our belief was that investors should not have to suffer through corrections – you'll remember we had two 50% corrections, the housing and the tech bubble), and then in 2020 we had a 35% correction during the pandemic.

The typical buy and hold investor will have to suffer holding through that volatility, and so our goal was to be able to create a strategy that is more dynamic and provides more diversification while generating absolute positive returns year in and year out. We think that an attractive absolute return strategy should really diversify the entire portfolio and lower overall portfolio risk, but it should also generate positive returns for the portfolio.

The secret to a high Sharpe: Produce Alpha, when markets are down - which the S&P is 45% on a weekly basis.

Believe it or not, over the past two decades the S&P 500 has had negative weeks 45% of the time. That's pretty amazing if you think about it!

What's special about our strategy is that we not only avoid many of those weeks, but we generate alpha during those weeks, and that's how the strategy is able to have such a high risk reward ratio and a high sharp ratio, simply because we also generate alpha when the market is actually down.

Matthias Knab: That's fascinating. Tell us more how the strategy actually works?

Heeten Doshi: So, you heard that right, our strategy is a market timing strategy. It's a **systematic and algo driven model** that determines risk-on and risk-off periods for the overall U.S. equity market.

How the model works, is it takes into account a multitude of investing disciplines and basically breaking it down into the following main components. First of course is data, we use contrarian and momentum indicators and market data and behavioural data. We then also look into the **speed and the different frequencies** of data.

There we use different speeds of algorithms to gauge that short to intermediate term and forecast the market. We also developed a **proprietary earnings revisions indicator** which is a very powerful tool. There's a lot of academic research behind earnings revisions and the behavioural impact that it has on investors.

We also look at macro data from fixed income to commodity prices, from interest rates to volatility, economic data, sentiment data, trader positioning, and so on. All that wide array of data goes into the model to forecast the risk on risk off periods.

Doshi Systematic Strategy Fund

Matthias Knab: Tell us also more about the execution side of the strategy and which instruments do you actually trade?

Heeten Doshi: To execute the strategy we use e-mini futures. We use the S&P futures and long-term treasury bond futures for liquidity reasons and also for the tax efficiency.

One of the biggest benefits of this strategy that is that it provides a lot of diversification. In our view there are two types of risks, there's **unsystematic risk,** for example single stock risk, and then there's also **systematic risks,** the macro risks. Our strategy diversifies away both of those because we invest in the overall index – we are not taking single stock risk as we're not investing in single stock names – and then we also diversify systematic risk by the nature of the market timing strategy.

You could also say our model is a macro model and it looks to avoid, or better, exploit those larger events. In fact, our focus has been on cycles and in my past history and career I have done a lot of work on macro cycles, and so embedding that cyclical work into this model allows us to forecast these sort of mini cycles in the in the market.

Just summing up again, the strategy provides a lot of diversification, it's uncorrelated to almost any other asset class, whether it's equities or fixed income or REITS, bonds, gold or even other alternative assets, you'll see that the strategy has a low correlation to almost anything else. At the same time, it also generates a lot of alpha.

As I mentioned before, we use e-mini futures to execute our strategy. These are 1256 contracts that have tax benefit. Despite the short-term nature of our strategy, as per IRS code, investors are taxed 60% at the long-term capital gains rate and 40% at the short-term rate. This provides a significant tax efficiency to our investors.

Matthias Knab: Walk us through how your strategy did in 2020. With a return of 147.5%, you certainly trumped the market and many other strategies.

Heeten Doshi: During the pandemic our strategy was risk off going into the pandemic. Obviously the model did not predict the pandemic, but looking at the indicators the model takes in we were actually in long-term treasuries entering the pandemic.

We benefited on the way down and then also towards the correction the model then went risk on and it actually stayed risk on for almost the remainder of the year.

So we benefited on the way down and on the way up. As I explained, the model is contrarian and also momentum, so going into the pandemic it was contrarian, it saw the market as overbought with elevated indicators, so it had a risk-off view. But if we look deeper, the model was actually changing on a week-to-week basis and timing the market moves on the way down, and when the rebound started to happen in the overall market, the model went risk on and it stayed risk on for weeks and months. That's the momentum effect of the model. And so, for me, that's the beauty of the model that it takes into account contrarian data, momentum data and then also behavioural data, because if you look at just the absolute data at that time – job numbers were still pretty bad, unemployment was very high, the economy was still shutting down and we were still learning the effects and the impact of COVID, but sentiment was already changing. After that 35% correction investors quickly started to believe that the worst was behind in terms of the market correction and that's what the model picked up.

You may recall the confusion in the market about the quick and complete rebound at that time.

Certainly, a lot of people that we have spoken to didn't understand and questioned why the market was rallying in a V shape when the economy was still cratering. It's really about forward expectations and behavioural expectations. Many investors did not understand or missed this because they were only looking at the absolute data and not only said, "Wow, this is horrible!" but also missing out on the rebound.

As I said, we built the strategy not just to look at economic data but also at sentiment positioning, how are other investors positioning, because at the end of the day, **the market has a mind of its own.** You may also recall that I mentioned speed and frequency, so by having shorter term frequency data and shorter term calculations we're able to exploit that week to week down move that we saw from February through March when the market was correcting, but then also having those longer term data, the longer term algorithms and the momentum data we were able to ride the wave up and stay invested early on when the market was rallying.

We had a lot of investors calls who told us they were selling when the market corrected 35% and then when it started to bounce they continued to trim their positions as the market was moving up thinking

that it was going to correct again. But it never did, the market never went back down, it just continued to rally relentlessly.

See, that's the advantage of having a systematic model: we follow the model, we follow the data, and the model said to stay risk on throughout and as a result we had an amazing year. To be honest, if we didn't have that model to follow behaviourally, we probably would have also said, "Hey, we should trim our position on the way up because there's a lot of uncertainty out there regarding the pandemic and COVID", but you know the model had it right, it stayed fully invested on the on the way up. So for us, the great COVID pandemic of 2020 turned out to be a great example of market timing and the systematic approach that takes away the discretionary and the emotional biases that we all face. That's why we built this model as systematic, without any emotional bias and without interference, so that we are hopefully able to produce returns year in and year out.

Matthias Knab: How is the strategy expected do in rising interest rate environments?

Heeten Doshi: That's a question that we get a lot! Our strategy is primarily an S&P index strategy and so people ask how would it perform in a rising rate environment?

The way we look at it is that investing in treasuries is a hedge against equities, it's a view on being risk off. So we are not taking a view on treasuries or on where interest rates are going, we are using it as a hedge. We also have stop losses underlying the strategy. Even in the beginning of 2020 when interest rates were already very low when the 10-year was 60-70 basis points, it went down to 30 basis points.

I mean, if there's a reason for the market to be risk off, interest rates will continue to go down, no matter how low they already are. So we are not taking a long-term view on treasuries, they are a week to week hedge in a risk off environment. The core of our strategy and our performance engine is really our capability to focus on where the S&P is going, not where rates are going.

Bettina Kurz: Love wine? How to buy a winery

Bettina Kurz

Matthias Knab: This is where I grew up - and moved back after having wandered some 30+ years around the planet. My great-grandfather financed the purchase and establishment of the Knab wine-growing estate, and this vineyard - the Engelsberg or Angel Mountain - is just five minutes by bike from my home.

This region - the Kaiserstuhl or "emperor's chair", named after the Holy Roman Emperor Otto III who held court there on 22 December 994, is a small, volcanic massif which rises like an island from the Upper Rhine Valley. There, the sun shines stronger and longer than anywhere else in Germany. The Roman Emperor Probus lifted a ban on planting in these regions in 91 AD, and intensive viticulture developed since then.

Over the last decades we could see that wore and more entrepreneurs and celebrities are investing in the world of wine. For affluent families and entrepreneurs, the purchase of a winery is an opportunity unlike any other, aside from the usual finer things in life, to invest in a unique, pleasurable business concept. The opportunity to work with a sumptuous product appeals to many, as does the ecological aspect of such a project, or - in my case - just being able to enjoy an overwhelmingly beautiful nature on a daily basis.

Each May, the European bee-eater migratory bird arrives at the Kaiserstuhl from Africa to breed and have their young here.

Today I am speaking with Bettina Kurz from Viva Business, a private office for international winery transactions.

Matthias Knab: Bettina, who owns and purchases wineries?

Bettina Kurz: These days, an increasing number of prominent individuals, managers and wealthy wine-loving entrepreneurs are turning their dream into reality. Of course, in addition to these career changers, purely financial investors and companies from within the wine industry are also looking to buy and invest in wineries.

Between 2010 and 2020, Europe saw over 200 acquisitions and transactions within the wine business. This figure does not include the purchases of "smaller" wineries and vineyards.

Very recently, a Belgian investor purchased a renowned Brunello winery for a nine-figure sum and an American/ Columbian investor acquired 20% of the French cult-winery Pomerol (Petrus). The Argentine magnate Alejandro Bulgheroni has invested over 120 million euros in Tuscany between Dievole, in Chianti Classico, Tenuta Meraviglia and Tenuta Le Colonne, in Bolgheri, and Montalcino, putting together330 hectares of vineyards in the most important territories of Tuscany.

Celebrities such as Sting, Gianna Nannini, Brad Pitt & Angelina Jolie, Johnny Depp, David Beckham, Carlos Santana, Francis Ford Coppola and Sir Cliff Richard all own or have shares in wineries. This is also the case for corporate groups such as Knauf, Ferragamo, Lamborghini, Wolfgang Reitzle, Jack Ma (Alibaba), Rupert Murdoch and many others.

International companies such as Chanel, the EPI Group and BlackRock as well as numerous companies from the beverage industry such as Henkel, Rotkäppchen, Mumm and others have acquired wineries and associated businesses. Big names such as Antinori, Frescobaldi and Zonin for example, also invest in projects based in South America and China.

With vineyards located all over the world, the choice of wineries is quite extensive. The range of wineries available on the market is vast; from large corporate-run wineries with luxury hotels or historic villas to simple acreages without any significant real estate to straightforward wine-producing businesses. Traditional, family-run businesses also come onto the market.

Matthias Knab: Which are the most popular countries or wine regions from an investment perspective?

Bettina Kurz: The most popular countries and wine regions for purchasing a winery are Italy (Chianti Classico, Brunello, Prosecco, Piedmont), and France (Bordeaux, Champagne, Provence), as well as Portugal, Spain, Germany and South America (Argentina, Chile and Uruguay). Or perhaps South Africa, where the German celebrities & entrepreneurs Beckenbauer, Schörghuber und Dornier are currently winegrowers.

Whatever your preference, there are wineries available for purchase almost everywhere in the world. Together, France and Italy account for 32% of the world's wine production. Portugal, with its still moderate prices, is currently a very attractive location for investors and buyers looking for wineries and hotels in wine regions. It is only a 1-2 hour drive from Porto Airport to the famous Douro Valley wine region.

Matthias Knab: And why are wineries being put on the market?

Bettina Kurz: The reasons for selling are as varied as for any company. Often there isn't anyone to carry on the business, or the owner's sales concept hasn't been successful.

Large wineries often accumulate significant debt due to substantial investments in new buildings or modern technology and are only able to find a solution through putting the business back on the market. Some choose to find an active or silent partner in order to expand further using fresh capital. With these funds, they plan on planting new vineyards or developing new distribution channels. There are many wineries that simply want to benefit from having an experienced entrepreneur on board.

Matthias Knab: What are the pitfalls for interested private parties?

Bettina Kurz: Every country and even every wine growing region has its own rules and regulations. It is not enough to simply approach a real estate agency and enquire about wineries on offer. An agent needs to have good connections in the area and have the following competences: expertise in the field of viniculture, the ability to value both real estate and land, the ability to assess the quality of the site and production as well as the ability to assess the business and the potential of the winery. Only expert consultation ensures a fair valuation.

Many of the wineries that are officially on the market are not attractive from a business point of view; **a house with a vineyard is far from being a functioning winery.** In such cases, buyers have to factor in significant initial losses and high investments in buildings, technology and the vineyards themselves. It is the so-called off-market wineries with functioning business models, established brands and good financial health that are of particular interest.

Many dream of a small winery for personal use and want to make this a reality by predominantly financing their purchase through outside capital. Be careful! Wine is a natural product and therefore its production is very much influenced by the unpredictability of nature. There will be both good and bad years.

Matthias Knab: How do you value a winery?

Bettina Kurz: The value of a winery is dependent on the following elements: real estate, land, vineyards, fixed assets (the condition of agricultural equipment and wine-making technology), wine stock both in bottles and in tanks as well as goodwill.

One hectare of planted vineyard for example, costs up to €150,000 in Chianti Classico, in Montalcino a hectare of Brunello vineyard from € 400,000 onwards. In the Prosecco region of Valdobbiadene or the Champagne region in France, vineyards reach up to € 1.2 million per hectare. In Portugal's Douro Valley, prices start at approx. €50,000/ha. Wineries in less established regions are naturally significantly less expensive. But developing a brand there and establishing it on the market is virtually impossible these days, even for sales and marketing experts.

The process of acquiring a winery is the same as with any company. The signing of the confidentiality agreement is followed by a letter of intent from the interested party in order to access financial data and to carry out a due diligence check if necessary. A proof of funds is required for larger wineries and businesses.

Matthias Knab: What is the minimum amount of funds needed to invest?

Bettina Kurz: The value of a winery lies predominantly in its assets, i.e. purchase is based on earning capacity - notably, value of vineyards in the well-known regions is increasing.

Wineries can be purchased for between approx. € 3m and € 300m, or even more. There are diverse options depending on the budget of an interested party, their wine preferences and the use they envisage for the winery. Is the aim to buy a small winery in Tuscany for hobby purposes or rather a renowned winery in Margaux?

Matthias Knab: Can you also tell us more about returns and cost?

Bettina Kurz: Reputation is all well and good, but a winery should also be economically viable in the long term. The grapes may grow by themselves, but the wine is another matter. The dream of having your own profitable winery will only come to fruition through professional work, the right decisions, sound assessments and good business sense. Wine business is also people business!

Purchasing a winery includes developing long term strategies to open up new international distribution markets so that sales and profits rise. Turnover is generated from the sale of wine to importers and regional sales to wine bars and restaurants as well as direct sales to private customers at the winery.

The cost of exporting wine from a winery to different countries varies considerably, meaning that it is almost only profitable for wineries in known wine regions e.g. a bottle of Brunello Montalcino DOCG can be sold to an importer for between € 15 and € 25, but the price of a bottle can cost up to € 50. A good bottle of Margaux can reach between €150 and € 300 or even more (export price).

Other opportunities include switching to organic certification, biodynamic production methods, the production of kosher, natural or vegan wines etc. to tap into existing niche markets.

Increasing quality, participating in international wine competitions and receiving awards, certificates and points are further possibilities.

In some countries, such as Canada for example, an international award is required in order to sell the wine. Expansion is possible through the purchase or leasing of more vineyards to increase production. An interesting opportunity lies in becoming an active or silent partner / part owner in a winery. Investing in this way means that one or more people can participate, which saves costs as well as transfer tax.

To give you more specific example of costs, a vineyard in the Chianti Classico region, approx. 10 years old, has approx. 6,500 vines. Each vine costs approx. € 1.20 per year, including all manual work such as pruning, defoliation etc, as well as necessary tractor work. The cost for the production of a bottle in the winery ranges between € 1.00 and € 1.50.

Matthias Knab: From the perspective of an owner or investor, what are the options to actually manage a winery?

Bettina Kurz: 20 years ago, a buyer of a winery would have had to manage everything themselves. This is now rare.

Entrepreneurs and private individuals, who purchase a winery today, generally don’t have the time for the day-to-day running of the business and rely on specialized companies for support. Such companies, for example, can put an interim management team into place after purchase, to work with renowned oenologists and agronomists to advise on the strategic future orientation of the winery.

A good export manager for the distribution of own wines doesn't need to always be present at the winery, they can also work in the vicinity of the new owner.

Specialized regional consulting firms offer expertise in terms of investments and agricultural subsidies. Such firms will put together the necessary EU documentation on a commission basis.

Matthias Knab: Any thoughts regarding the exit?

Bettina Kurz: Well-known wineries with a good brand and marketing strategy are very much in demand. For those whose aim is to sell on the winery they are purchasing, it is important to choose a winery with an already established brand and international customer base.

Darius Sit: Cryptocurrencies and the relevance of market structure

Darius Sit

Darius is an early pioneer in the Singapore crypto-trading scene. Fresh out of the National University of Singapore Darius joined Dymon Asia Capital, Asia's largest macro hedge fund. There he learned intricacies of macro trading and was exposed to the entire spectrum of financial derivatives including financial options.

Darius' foray into crypto-trading started off in 2016 with simple arbitrage opportunities, arbitraging Bitcoin prices between different countries. What started off as a hobby, quickly became a serious business opportunity when he saw the potential of crypto-assets.

Matthias Knab: Do you think cryptocurrencies will still be around in the next 5 years?

Darius Sit: Yes, but it may not exist exactly in its current form, but definitely yes.

Bitcoin was envisioned to be a currency with limited supply to be used as a store of value. It is presently fulfilling the store of value function, but as a currency used for the exchange of goods and services, it seems to have fallen short for now. That said, there are many ongoing projects within the crypto ecosystem that are trying to correct this, or in some way shape or form, trying to work around this issue.

Matthias Knab: Will I lose my coins to hackers?

Darius Sit: Such worries, or complaints by those that reject crypto assets are simply excuses for resisting the change. Many banks and individuals have been robbed, since the creation of fiat currency, but you don't see people complaining about the dangers of holding money in their wallets thus rejecting fiat. While I'll admit that it is an over-simplification, my point is that with sufficient profit motive, the market will find the solutions, and they have.

The increased adoption of crypto currencies globally has driven up its value, making many early adopters very wealthy. This wealth creation and the increased market cap of crypto assets has translated into demand for services to keep crypto assets safe. Judging by the increase in institutional offering and the overall improvement of quality of these offerings, I believe the cyber-security in both custodians and exchanges have been greatly strengthened since those days where people's coins could be stolen, or held at ransom by hackers.

Unfortunately many late adopters still remember many of those stories about coins being hacked, not realising the technology has improved significantly over the last five years. That said, any cyber-security expert will tell you that the weakest link in cyber security are humans, so as people start to hold more digital assets, they will likely become more savvy in terms of good cyber-security hygiene. I'm optimistic that these concerns will fade away quickly, if not already.

Matthias Knab: Bitcoin has appreciated roughly 8.5x in 2020, and then halved again in 2021. But this is nothing new – this cycle has come to be known as "crypto winter." In October and November 2013, bitcoin rose 10-fold and then fell 87% through January 2016. In 2017, the price rose nearly 20 times, and then fell 84% over the next year. It didn't recover its previous high until late 2020.

Still, Bitcoin still seems to be some fundamental attraction for different types of investors, but they need to be able to stomach this type of volatility. What are your thoughts here?

Darius Sit: Such volatility is indeed a big risk, but it also presents great opportunities. **This is precisely why investors should opt for an alpha strategy as opposed to the passive strategy.** Bitcoin's price action as you described above presents a lot of alpha opportunities, the key is a robust risk management framework. *I believe astute institutional investors can invest in hedge funds that deal exclusively in crypto assets. Much of the talent pool that has crossed over to the asset management side of crypto trading have come from either financial institutions, or hedge funds. These individuals happened to also be early adopters of the asset. They saw the opportunities in this asset class, figured out a way to monetize it, and never looked back. Essentially, this is our story, and it isn't a unique one.*

Like any other asset, there are idiosyncrasies and nuances within the crypto space, early adopters still have a significant edge. This edge comes from being part of the crypto ecosystem early on. It is a tight knit community where folks trade market insights and deals very selectively. It is a bond forged through surviving the "crypto-winter". All the early adopters had to suffer through the period after Bitcoin crashed from $20,000 to $4,000.

In our case, we focused on what we knew, which is **market structure.** We were one of the earliest players in the crypto derivatives market and continue to be a significant player in the space. Early on we focused on capitalizing on the inefficiencies in the space and continue to do so. Since the crypto markets have deepened significantly over the last 15 months, we now feel that the time is right to also take on third party capital. Previously, we weren't comfortable.

I don't believe crypto currencies will never replace fiat. I believe over time the two will co-exist. In my mind, **I see crypto currencies co-existing with fiat, as a check on ill-disciplined central banks.** For us, we don't just trade crypto-currencies in isolation, but also look at all the macro themes globally and see how it may potentially impact crypto assets. Not too different from macro investing, which is why it isn't too surprising that someone like Paul Tudor Jones would come out to speak about it.

Matthias Knab: Will financial regulators or central banks step in to ban cryptocurrencies?

Darius Sit: I think it would be almost impossible to ban crypto currencies altogether, unless every country in the world took a stance to outlaw it.

That said, I believe we are well past the point of crypto currencies from being banned. As mentioned previously, I see crypto currencies co-existing with fiat and would probably serve to be a check on central banks from being too eager to increase money supply in an unfettered manner. One of the main reasons Bitcoin has had such strong adoption is because all the major economies in the world are engaged in extremely easy monetary policy. We are seeing zero, or near zero interest rates in most major economies. We are also seeing the resumption of quantitative easing. Now we are even seeing "helicopter money" by way of governments directly giving cash, or cash rebates to citizens to help them manage through this pandemic.

It is clear to investors, as well as the layman, that there is no scarcity in fiat and there will be a price to pay down the road. This is why the adoption of crypto currencies has been so fervent in recent times.

Barring that "government's of the world unite" moment, the crypto currency ecosystem would simply gravitate to a jurisdiction that is benign to it.

Matthias Knab: There has been a lot of talk in media about institutions buying crypto - you are on one of the largest crypto brokers, can you confirm this?

Darius Sit: I think it depends how you define institutions in this case. A lot of the headlines recently were about corporates buying - Tesla, MicroStrategy and a few other US names have been buying bitcoin. We also saw hedge fund and "old hands" such as Paul Tudor Jones who said he was buying, along with a growing number of hedge funds.

In Asia, where we are located, we mostly see high net worth and family offices expressing interest in cryptocurrencies while the corporates have not participated much yet. I think it is because there is still lack of clarity on taxation and on accounting.

Matthias Knab: Apart from bitcoin, what other coins could investors look at?

Darius Sit: For us it's really about **coins that have specific market structures – a volatility curve and basically an options market and a rates market.** Right now, the only coins that have this market structure are bitcoin and Ethereum. To some extent, bitcoin cash. The rest of the coins don't really have options or rates markets yet. But that's our view of what could represent institutional grade coins. If you look at market cap of some of these alternative coins, you could argue that there are a lot of "blue chip" coins as well – coins that have either been around for a long time or coins that have in the recent times had a lot of attention and a growing market cap making them blue chip, especially some within the DeFi space.

Matthias Knab: Why is that so important to have a rates market or options market?

Darius Sit: Well, for one, you have much deeper liquidity and more institutional players in it who are familiar with traditional market structures and therefore, understand and are investing or trading these coins in sophisticated ways rather than just pure speculation.

Matthias Knab: **Recent reports said that more hedge fund giants like Millennium, Matrix, Point72 would start trading crypto. How do you see the creation of such crypto funds changing the dynamics? What will be the effects?**

Darius Sit: We have actually spoken to some of these guys on your list as they have been exploring trading in crypto; I actually think this would be interesting. From the conversations that we've had, they are able to enter the crypto market but only certain segments. For example, they would be able to trade CME futures or they would be able to trade on regulated markets like Coinbase, or regulated exchanges. But there are many parts of the crypto market that they will not be able to have access to, such as non-regulated exchanges. I think this would be difficult for them given compliance. This has been part of the discussion, how do they tap these markets when a lot of the liquidity pools are not regulated. If they default on you, you have no recourse and you don't know who to sue because in most cases there's no domicile and no jurisdiction behind them. Therefore, it becomes difficult for these big institutional funds to participate.

But irrespective of that, if more professional investors such as hedge funds come in and participate in certain segments of the market, I think it would actually create **additional dislocation** simply because we would witness this heavy participation in certain segments from institutional players but less so in other segments. We actually see this already in the current market already, right? The forward curve on the CME futures and the forward curve on the non-regulated exchange futures are very different and very arbitrage-able because one has the participation of the institutions and one does not. This for me shows a potential for added dislocation.

Apart from funds we've also been talking to banks. Goldman Sachs originally announced that they want to enter the market but they won't touch the physical, they will only be trading a cash-settled non-deliverable forward (NDF). Again, we see an opportunity here because the same way that Asian currencies used to have a spot versus NDF, right now you have banks that will be trading a different curve on the NDF forward market versus guys who can trade in spot market. You end up having new products, new curves, new dislocations that would be tradeable and arbitrage-able.

Matthias Knab: **We spoke about the interest of the blue chip, mega hedge funds to trade crypto, and then on the other side are their much smaller brethren and even dedicated crypto hedge funds. Are these type of funds also trading on regulated exchanges only or do you see them venturing into physical and unregulated markets?**

Darius Sit: Many of them will have access to both markets, so they would trade the spot market and the non-regulated markets as well and thus are able to trade the full spectrum. Depending on their set up and the nature of their end clients, they probably will not face the kind of difficulty like the institutional hedge funds, but really the kind of access for each player also varies quite a lot depending on what they are focused on. Just to add, these smaller actors are to a great extent existing players or crypto natives, so they won't cause any additional dislocation. They will have dual access to the whole spectrum of products.

Matthias Knab: **But there is probably a reason why the institutional funds shy away from unregulated markets, and in fact you already mentioned a few. Investors in those funds probably take on additional levels of risks, like**

counterparty risk. What types of risks should the end investor be aware of and analyze when doing a due diligence on these smaller funds who play all markets?

Darius Sit: You are right, **counterparty risk needs to be analyzed when a fund trades on non-regulated exchanges.** Some of those are involved in practices that would be very frowned upon in institutional markets, so there is not just counterpart risk, but also trading risk on these exchanges. We have also seen exchanges come and go either from hacking risk or fraud. Within the spectrum of non-regulated markets, there are good exchanges and bad exchanges as well.

So, as you suggest, it is a good idea when you look at a fund that's trading cryptocurrencies to look through which venue and market are traded and what the risks are, because having the right counterparties and having the right relationships with counterparties is very important.

How do we as specialists focusing on derivatives and specifically options on cryptocurrencies deal with this? We have made it a point to invest in one of the biggest option trading venues in the early days. Our SPV is in fact one of the largest shareholders in that exchange. As shareholders, we are able to mitigate some of the counterparty risk and some of the trading risk by ensuring that proper measures are set in place and that we have trading agreements that are transparent and favorable to us and our investors.

Matthias Knab: Apart from trading cryptocurrencies it was also reported that Millennium, Matrix, Point72, and probably others would also be starting DeFi or decentralized finance funds. There are already a number of VC firms dedicated to DeFi as well. Do you have any recommendations for investors who are interested in getting exposure to DeFi?

Illustration by CoolWallet

Darius Sit: Well, DeFi is a very big topic of interest of course. It claims to be the next iteration how finance and investments operates within a more democratic and decentralized framework. But I would say it's very early stages. DeFi only started to boom the second half of 2020 and there are still a lot teething issues.

You know, as you can see every other week some form of exploitation of a DeFi protocol becomes public, and so I would recommend caution. By definition, there is no intermediary in DeFi protocols, and so if anything happens, there is no recourse. What does this now mean? Well, if you are going to use a DeFi solution you should look at the code. You need to know that code and you also need to know the team members of the protocols which are often anonymous. As you can imagine, DeFi in the end comes with big question marks, not just for many investors but for regulators as well who, at least at this stage, don't know how to regulate DeFi and as everyone else are not sure of what the risks are.

New DeFi protocols are coming up every day, and so how do you separate the good from the bad? How do you identify which are safe and which are not? I think this is a very tricky question given that DeFi is such a new space even within crypto. I would say the approach would probably be to err on the safe side by sticking with the blue-chip ones, meaning the DeFi protocols that have been around for a long time and more well-known.

Arnaud de Coninck: Keeping Family Offices secure

Arnaud de Coninck

Arnaud de Coninck is Head Partnerships at Trusted Family, an award-winning technology platform serving the world's leading family offices, family businesses, and private companies. Its technology allows you to connect, communicate and collaborate securely with your family, team members, shareholders and board, from anywhere.

Matthias Knab: Founded by two next-generation entrepreneurs from European business families, Trusted Family has built the industry leading workflow and communications platform for family offices, family businesses and private companies. Arnaud, tell us a bit about your and the Trusted Family's background.

Arnaud de Coninck: The two co-founders of Trusted Family, Edouard Thijssen and Edouard Janssen and I share a similar background: I am a **sixth-generation member** of a Belgium company called Solvay, a family business which is listed on the stock market.

Edouard Janssen is a member of my family business and Edouard Thijssen is a member of the family behind the Belgian Aliaxis Group, which is one of the leaders in transport of water and gas and sanitary systems. We all have the same challenges because our families are multigenerational families tied into a network of businesses and other assets, or **challenges around the transition** from one generation to the next. Transition is an enormous, multi-faceted task, not only how to prepare and educate the next gen in becoming responsible owners but also in having secure and transparent operational systems and processes in place, as well as healthy frameworks about governance and communication.

As you can imagine, these issues are not limited to us but affect countless families around the globe, no matter if, for example, they are transitioning from the first to the second, the second to third or from the 10th to the 11th.. The challenges that families face are often very similar and often exacerbated by the fact that family members start spreading out geographically and work in many different sectors, especially in our generation.

Trusted Family has created and runs dedicated platforms that help family businesses and family offices to manage meetings, share documents and deliver confidential information, in one secure technology solution. We also help private companies streamline board governance and shareholder communications to drive efficiency and deliver value.

Trusted Family leverages a decade of industry expertise and employs gold-standard best practices for securing all user information, data, and documents, to put your security at the forefront of our business. The company is headquartered in Brussels, Belgium, with offices in London and New York, and family business clients in 27 countries globally.

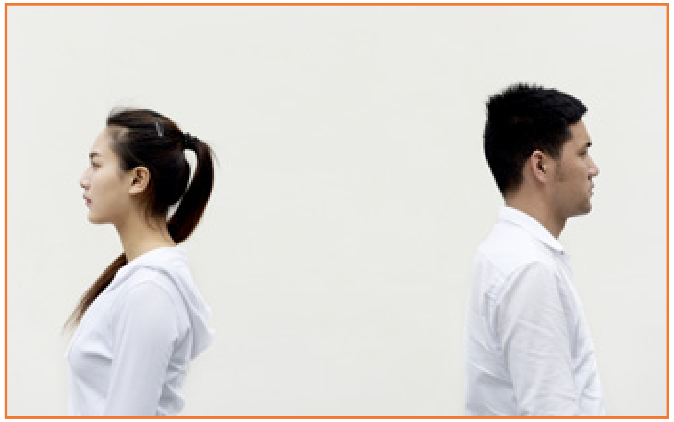
Today we are the industry leader and work with about 160+ family offices, family businesses around the world who use our solution for improved communication and effective decision-making for board, shareholders, family members and external trusted advisors.

Matthias Knab: Can you share in more detail how the Trusted Family solutions make life easier for family offices, family businesses and private companies?

Arnaud de Coninck: Just looking at my own family which is diversified and spread all over the world. While very few family members are actively involved in the day-to-day operations of the businesses, there are also all sorts of committees, boards, shareholder councils and entities that require structure and a need for documentation and more effective transparency.

If you look at the main reasons for conflicts in families, things like lack of transparency and a lack of preparation of the younger generation are probably among the top three.

We built technology and processes that really have the potential to entirely remove the underlying problems. We also found that today, data management is as important as wealth management. I feel there are too many singe family offices out there that underestimate the value of data in our century. It is really key for family offices to preserve it, to control it and to build upon it for future generations.



Matthias Knab: Who is your typical user? And where have you seen spikes of growth or demand?

Arnaud de Coninck: Today we assist over 160 family businesses and family offices through a dedicated web and mobile platform. We have very different types of families: families with less than 10 members using our software to work efficiently together while others have hundreds of members looking to improve communication and create transparency. I would say that our main type of use case are families that transition from the second to the third generation when there are about 10, 15 members in the family who start to realize the importance of working together as a family. At this stage, a lot of things need to get thought through, planned, organized and archived to work more effectively together than just using emails or a simple drive.

Before working with us, our clients basically use a combination of tools and therefore information, data and documents are scattered all over the place. The idea through our platform is to be able to unite all stakeholders, external board members, external family members, advisors, into one ecosystem that allows the family to operate on one single platform.

Look, if we're talking about just communication between father/mother with their son or daughter, then I would say go have dinner together or spend some quality time in person to answer all your questions. I think that would be step number one. But the same parents may also have a family office with diversifications, with a lot of stakeholders, external board members, investment committees working for him or her – well, then it becomes really vital to have a trusted and secured environment to share information.

We also found that a lot of private companies are taking up our solution as they also have a massive demand for board and shareholder meeting management software and communication tools, especially through this COVID crisis, where it's been impossible to actually meet in person. Equipping themselves online with effective tools for managing boards,

organizing boards, following up on boards and shareholder meetings is really what has helped us find a lot of recognition from those private companies as well.

The COVID pandemic has sparked a lot of growth as the world continues to digitize to optimize processes and work more efficiently. People and families who before might have been a bit reluctant to technology are professionalizing their practices to operate remotely.

Summing up, we help our clients really in two ways: One is working more effectively between their governance entities and external advisors; and the second aspect is the security and ownership of data. We enable this through a series of platform features helping users to schedule and run meetings, to annotate their documents, exchange notes and comments on files. We also have electronic signatures built into the system to facilitate decision making and hold people accountable.

As you can imagine, we keep developing, it's a never-ending journey. We are a team of 27 people today, and half of our revenue goes into product enhancements and R&D.

Matthias Knab: You said earlier that people still need to fully understand the need and the responsibility around data management. Tell us more about that and how you help your clients keep their data secure.

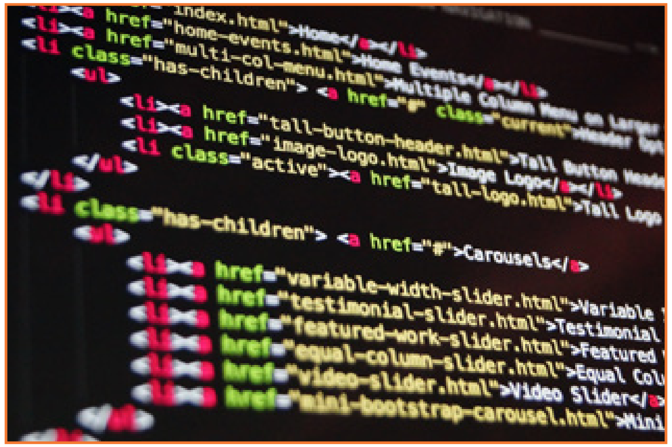
Arnaud de Coninck: You are right, when I started working with families, it was very difficult sometimes to convince them of **the importance of data management and data control.** I think over the past 10 years all the cyber-attacks and security frictions made singe family offices realize the importance of professionalizing their approach to document management and information sharing.

But that is really true for the greater ecosystem in which we operate. For example, we partner with academic institutions which have invested a lot in family business practices. We also work with wealth managers, multi-family offices and private banks that are shifting some of their processes to offer a more holistic approach to serve the needs of their family clients that are evolving.

Matthias Knab: Let me go back to the security aspects. How does your platform protect people and operations to conduct business securely?

Arnaud de Coninck: For sure, a lot of awareness and training needs to happen at every level. On our side we have a security committee that meets on a monthly basis just to make sure we have the right processes and structures in place within our organization. We also provide security training for our clients and our end users on the most current threats.

As I said previously, **data management is as important as wealth management and family offices need to control it, secure it, own it.** When you start having a combination of tools, it becomes more and more complex for family offices to really control, own and understand where the latest versions are or who has versions of those documents. It is also important for families to realize the actions they have online can have repercussions in real life. Family officers and family leaders must realize the importance of this and invest to define a security policy and strategy for their members.



To dive into a bit deeper, Trusted Family is not the data controller, the client is always the data controller. So we'll always have the obligation to give back clients data and to delete this one after a client decides to stop working with us.

We also have a structured process in place where every year several external firms audit our security measures, server infrastructures, web and mobile platforms to make sure we have the latest solutions, patches and technologies in place to help protect our clients' data.

Anyone who runs an organization should be aware of the fact that the more separate providers and multiple tools are used, the more vulnerable they become. How are the interfaces between those systems secured? What is the role of email in the set up? Ideally, no sensitive information should be transferred through email, just as a starter.

Matthias Knab: When Trusted Family was started, you were very fortunate to all be part of family businesses already. I wonder, how did you start your expansion, and how do you see this space evolve?

Arnaud de Coninck: With many of us coming from family businesses, we understand the needs and unique specificities of the industry. Once we had it all up and running, it was then quite easy to introduce the platform through our networks to other families.

Clients then started recommending us to other families - the typical network effect. They go to conferences, they speak to other families in their own ecosystem about things that matter to them, like the challenges of communication, preparation of the younger generation, transparency, etc.

I also need to mention the crucial role played by family business advisors. They work hard to define the blueprint for families. The governance structures, protocols and processes that they define are essential for the long-term success of a family enterprise. The Trusted Family platform takes this information and works with our clients advisors to put all of this structure into practice supporting the family in their journey to success.

Our partners have been amazing supporters throughout the years and we include them in all the work that we do with our clients. If you think about it, succession is a never-ending topic, and so is education. Once you think you are done with one generation, it's probably time to start with the other one!

To your second question about the evolution in this space: We do see more private companies adopting our solutions for real-time collaboration and accelerated decision-making across the board, so that's a massive global market and an opportunity for many organizations to operate, make decisions and work more effectively together.

On the family office side, we see that many are continuously professionalizing their way of working. More technology softwares are being used for reporting purposes, cap table management, tax & legal solutions, etc. These should ideally not remain siloed, and so I believe the tech companies supporting family offices will be more integrative and collaborative. We have already been doing all sorts of tech integrations for our clients and are working on improving our API in order to help us work more closely with third-party solutions in a structurally secure and more effective way.

Get to know **Trusted Family's platform on August 26th 10 am ET (3pm UK time) when Arnaud de Coninck will demo the** platform and share best use-cases from clients.

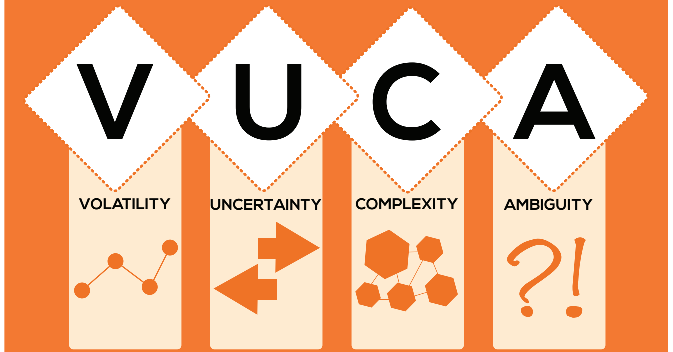
Register here for free:
https://www.opalesque.com/webinar/#uw0

Dr. Christoph Quarch: Learning From Socrates

Dr Christoph Quarch

Dr. Christoph Quarch is a philosopher, author and thinker. He advises companies and teaches at various universities. He also assists networks as a CPO (Chief Philosophy Officer) and author. In his many publications, he draws on the sources of European philosophy to find viable answers to the challenges of life in the 21st century.

One thing is certain: at the transition from the 20th to the 21st century, humanity has entered a phase of accelerated and profound change. Regardless of whether for good or bad, it will be fair to say that in just a few decades the face of the earth has changed rapidly and comprehensively. Probably both are true: At the threshold from the analogous to the digital age - in an epoch that scientists like to call the *Anthropocene* - humanity faces life-threatening risks, but also unprecedented opportunities.

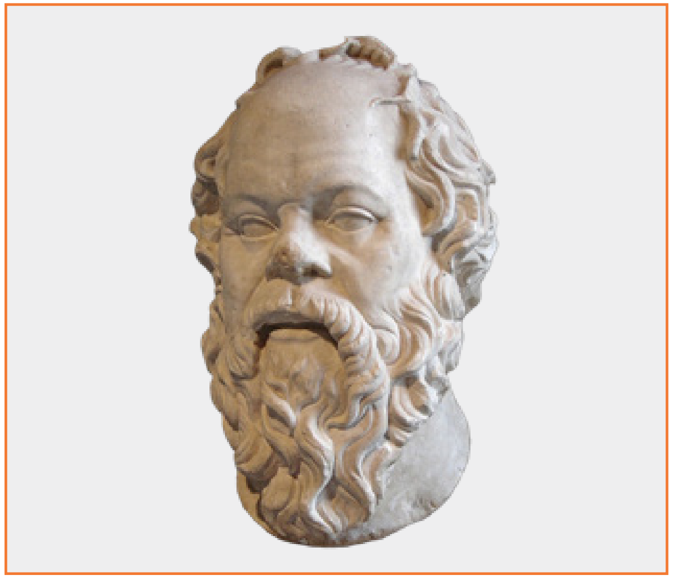


The belief in progress of the 20th century has given way to an attitude to life that is characterized by ambiguity, uncertainty, complexity and volatility. We now live, we are told, in a VUCA world. Given this, some urgent questions arise: *What do we want to do with our great technological achievements? How can we harness them to minimize the undeniable, threatening side effects of our progress: climate change, the ravages of pandemics, social dislocation, etc.?*

Finding answers to these questions is the central task troubling all those who are in any way responsible for our planet and humanity: Politicians, entrepreneurs, leaders, scientists, artists, thinkers, etc. But it is ultimately up to all of us to figure out how we can use our technology wisely; how we can use our knowledge wisely; how we can manage our wealth wisely. We need to find answers to the question of how to contextualize and cultivate our magnificent achievements so that they prove a blessing to humanity - and not a curse. In short, we need wisdom.

Questioning leads to Wisdom

Since the days of Socrates it is known which way leads to wisdom: the way of questioning. And indeed, to find answers to the questions above, we cannot avoid raising another one: *What do we want?* Or in other words: What do we *really want?* What do we yearn for in the deepest depths of our humanity? What do we want beyond ever newer and smarter technologies; beyond ever newer and more detailed scientific knowledge; beyond ever more money and material wealth? Or to put it this way: what is the real meaning of all our doing and not doing? What is the ultimate goal behind all our goals?



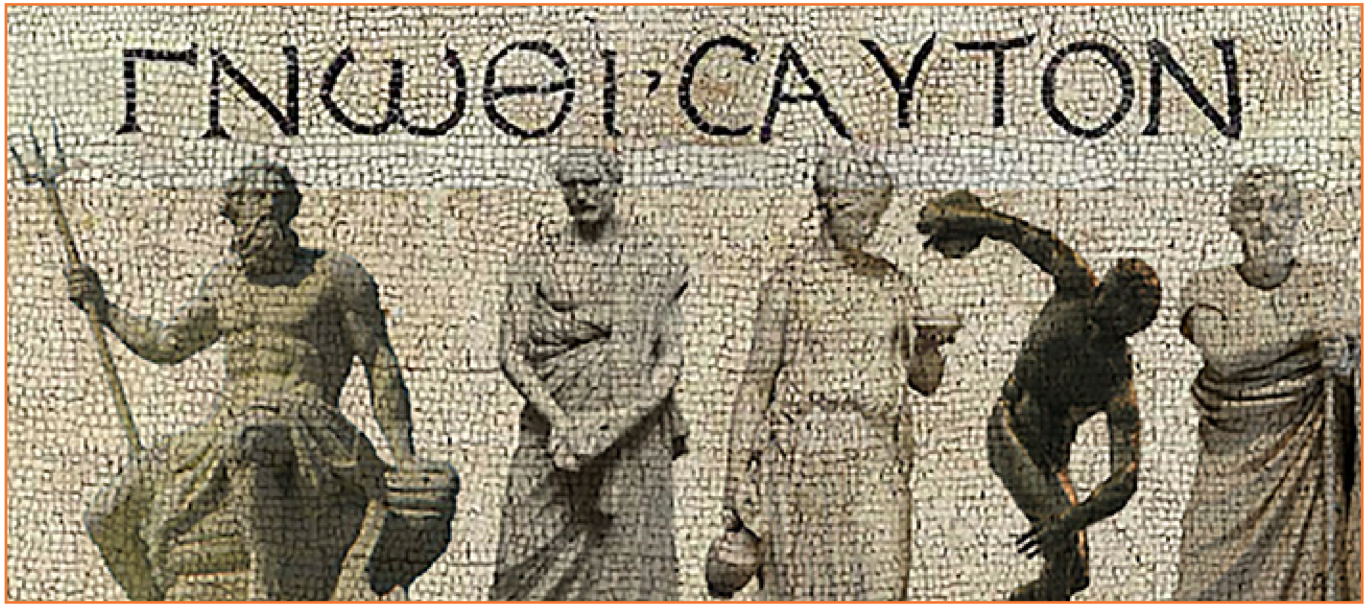
Portrait of Socrates. Marble, Roman artwork (1st century), perhaps a copy of a lost bronze statue.

These questions are not new. As long as humans have been able to think, philosophers, psychologists and scientists have tried to answer them. They impact the image of man through which we design ourselves and by which we measure ourselves - by the standards of which we settle in the world, organize our societies and our economy. Considering the challenges of the 21st century outlined above, it must be permissible to ask whether today's dominant interpretations of our motivational system and the image of man associated with it are actually correct.

For it can, indeed must, be doubted that a conception of man is valid if under its influence we ruin the global eco-system. A theory of being human, which endangers the physical world and every living thing on planet Earth, is questionable. A conception of man that leads to sawing off the branch we are sitting on is probably insufficient. **So, could it be that we need to rethink who we are and the way we are? Is there a goal behind our goals – a goal that we have overlooked as a result of our busyness and bustle?**

There are no easy answers to questions like these. Perhaps that is why we somehow vacillate, dither and fail to initiate the urgent transformation. What is to be done? My suggestion is that we would do well to turn to the cradle of our culture and consult the ancient Greeks. For it was they who placed themselves under an imperative that has lost none of its relevance. This appeal consisted of two words only and was chiseled on the walls of the temple of Apollo in the central sanctuary of the ancient world called Delphi. They read: *Γνῶθι σαύτον - Know thyself!*

If we want to meet the challenges of the future constructively, it will be crucial to know who we really are and what we as *human beings* are all about. Only then we will succeed to use the achievements of technology, science and economy wisely.



What if we asked the ancient Greeks for advice?

The ancient Greeks interpreted themselves in the light of their immortal gods. They called themselves *brotoi* (mortals) to emphasize the unbridgeable gap between men and gods. And yet, in the form of their gods, they revealed what human life might look like if it ever unfolded its potentials. Hence, SOCRATES (470-399 B.C.) and PLATO (428-348 B.C.) taught that being human was about nothing more than a *homoiōsis theō*: an approximation to the divine - knowing full well that it is impossible to become a god oneself. Yet the divine appeared to them as the "measure of all things" indicating the ideals of human existence. For each god represented a particular aspect of what Plato called *divine vitality*: the sum of all values and virtues, of harmony and beauty, abundance and fertility.

So, if we asked the ancient Greeks for advice, they would most likely tell us that **being human is nothing other than the constant pursuit of beauty and abundance,** the desire for flourishing and prosperity, the striving for harmony with nature and with other people: the never-ending quest for *flourishing vitality.* Why? Because we experience our lives as meaningful, significant, fulfilling and powerful whenever we unfold our aliveness.

At the same time, aliveness cannot be reduced to the so-called positive emotions. Grief and sorrow, pain and suffering are also potentials of the human soul. They were considered by the Greeks to be experiences that offer us the chance to realize the full range of human potential – to nourish and strengthen soul and spirit, to grow and mature in order to become a great human being. This is precisely what the Greeks understood as the very meaning of human existence: neither happiness nor power, neither health nor comfort - but flourishing life, human greatness.

How to harness the most powerful energy of life

In their mindset this striving for aliveness as a cosmic principle is inherent in everything alive. The name they gave it is *Eros*. This word is often misunderstood as pure sexual energy. From a Greek perspective this is flat. To understand it correctly, we must think of passion, inspiration and enthusiasm.

Eros was considered to be a divine spirit. He who is seized by *Eros,* they thought, has a divine spirit - *theós.* He is en-*theos*-astic: *enthusiastic* and *inspired* (from Latin *spiritus* = spirit). *Enthusiastic* people have the capacity to go beyond themselves, to create new life, to dare a transformation, to unfold their potentials. Therefore, loving enthusiasm, *Eros*, is the most powerful energy of life. And it directs us - in every case and in every one of its manifestations - toward the *goal behind our goals*: flourishing aliveness.

But we should not confuse *Eros* with desire and greed, hunger or need. Loving enthusiasm does not grow out of lack and neediness. It is also not controllable by our will or producible by technology. The same is true for any other form of passion. It seizes us, whether voluntarily or involuntarily. Anyone who has ever fallen in love knows this only too well: it is impossible to fall in love by forcing oneself to do so.

Passion, inspiration and enthusiasm - *Eros* in a word - are not about satisfying our needs. Rather, they grow out of abundance. They are out to increase life: to make the world richer, to foster aliveness. *Eros* strives for life and for ever more life. His loving enthusiasm releases creativity and the joy of creation.

A Sense for Connectedness

Here, too, we can learn from the Greeks. They knew that the passion of Eros is kindled by the beautiful. We are thrilled, PLATO taught, whenever beauty kindles the passionate fire of aliveness in our hearts. Then we feel the desire to generate beauty ourselves.

Those who are attracted and inspired by the beauty of a person - or the beauty in nature, in art, in society - unleash their best potentials; they long to live up to their source of inspiration: to become beautiful, to plant and nurture beauty, to generate beauty through beautiful deeds and actions. Those who ignite their inner fire on the lush beauty of aliveness will be strong enough to begin a process of lasting transformation and will be able to face the great challenges of our time.

Passion and enthusiasm not only strengthen our own creative energy. Enthusiastic people love to share their findings and insights. They can't help but cooperate with like-minded people and partners. They appreciate interacting co-creatively and opening up new horizons through their collaboration. Eros is a social actor that fosters connectedness and cultivates team spirit.

And that's not all: besides its incomparable ability to strengthen people's relationships, enthusiasm pushes people to unite in harmony and peace: to create balanced orders and conditions for their common enterprises and endeavours. The power of enthusiasm is therefore the most important resource for any transformation. Whenever enthusiasm comes into play, you can be sure that innovation and creativity will blossom. This is because it has the potential - provided it has not been artificially manufactured through manipulation and conditioning - to trigger lasting change in the service of aliveness.

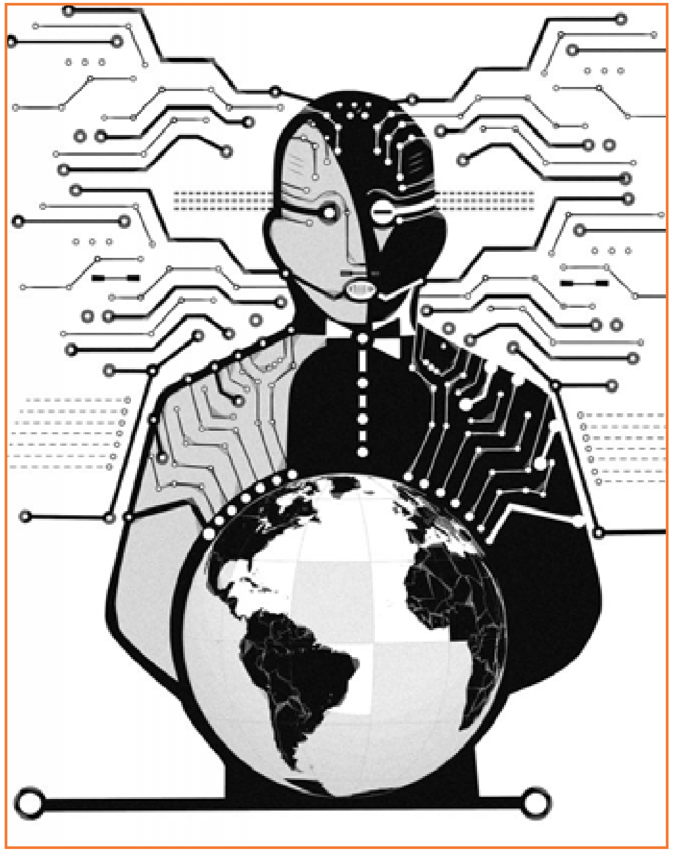
Know the goal behind your goals

Let's go back to the beginning: In order to meet the great challenges of our time, we need to know what we are really looking for. We need to know what is really important to us. We need to ask about the real purpose of our human endeavours. For only when we know our real priorities will we be able to apply our knowledge, technology and wealth wisely. **Having recognized that there is indeed a purpose behind our goals - flourishing and fruitful aliveness - it is time to ask ourselves how we can redirect our economies and businesses so that they no longer diminish or even destroy**

aliveness, but contribute to the increase and preservation of life.

"Homo Deus": A lifeless failure?

First, it is useful to pause for a moment and remember where unprecedented amounts of power, money and knowledge are currently being amassed: in the global IT corporations that are flooding the public with their promises of a magnificent life in a digital world inhabited by AI, robots, androids, cyborgs and other superhuman creatures. NOAH YUVAL HARARI has shown that the ultimate aspiration of 21st-century-humanity will be the abolition of death and the artificial self-deification of man into *Homo Deus*. But we should resist these temptations. In truth, the vision of a world of technologically optimized but lifeless beings on a depleted and polluted planet - or in artificial habitats on Mars - is a nightmare; especially considering that what we really want is nothing but aliveness, intense life, laughter and tears, birth and death....



llustration by Jon Williams

If we ask ourselves how we can use our achievements wisely, here comes my suggestion. Let's invest not in *technological* disruption, but in *mental* disruption. What we really need today is a profound shift in the way we think. We need to understand that it is time to support and strengthen those endeavours that serve aliveness - everything that is in line with the very meaning of being human, instead of always inventing new artificial needs that nobody really has and tools that nobody really wants. What could this mean?

The most important feature of a new economic mindset will be a **redefinition of the purpose of our companies:** no longer just material and monetary growth, but human growth: growth in liveliness. This does not mean that monetary growth is wrong. It means recognizing that it is of secondary importance compared to what people really crave; as well as measured against what is urgently needed in the age of climate change.

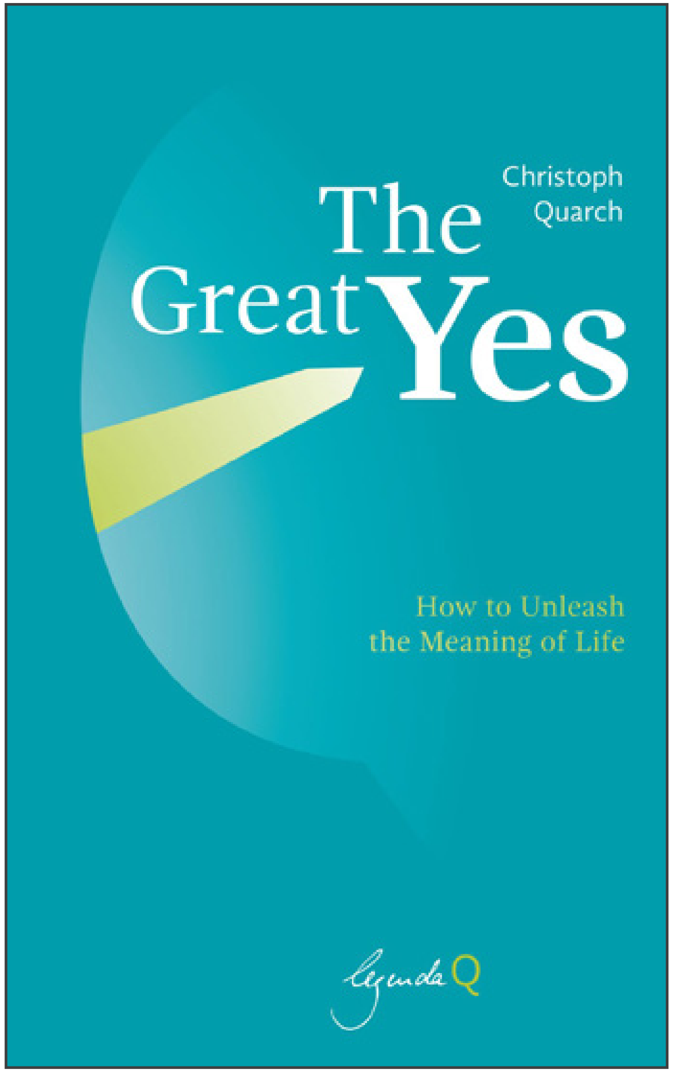
Meaningful business in the 21st century will be in the service of a thriving and prosperous humanity - in harmony with life and nature. Progressive businesses will redefine themselves as *gardens* rather than machines. This is what I call mental disruption: a profound change in the way we think about business - a new beginning that reconnects business to the fundamentals and aspirations of people and nature.

The *re-set* of economic thinking will be ushered in by a *re-set* of the economic motivation system. Neither greed nor fear will be the driving forces of enterprise, but enthusiasm and passion - what the Greeks called *Eros*. Eros is more concerned with the multiplication of flourishing than optimizing smart machines, more with creation instead of maximization. **Businesses that are enthusiastic about beauty and aliveness will be a good investment –** because wherever passion for life moves a human heart, you can be sure that something meaningful and fruitful will emerge.

There is nothing our world needs more these days than the spirit of aliveness. It is the resource for our common future. We are well advised to reconnect with it. It is time to do what the novelist D.H. LAWRENCE once called for: "We must plant ourselves again in the universe."

Recommended Reading:

Christoph Quarch: The Great Yes. How to Unleash the Meaning of Life. Kindle 2021, € 13.99.



How Creative Investors Address Alpha Erosion

Panayiotis Lambropoulos

Panayiotis Lambropoulos, CFA, CAIA, FRM, is a Portfolio Manager at the Employees Retirement System of Texas – a $28 billion retirement plan – located in Austin, Texas. His responsibilities include sourcing, analyzing and evaluating potential third party managers deploying all types of alternative investment strategies. His focus is on the Trust's Absolute Return Portfolio as well as Opportunistic Credit allocation. Lastly, **he is responsible for the Trust's Emerging Hedge Fund Manager program – ERS Launchpad - which he proposed and spearheaded.**

Panayiotis started in the alternative investment industry as a Research Analyst at Grosvenor Capital Management in Chicago. He later joined MCP Alternative Asset Management, a multi-billion Tokyo-headquartered Investment Advisor (Fund of Funds) in Chicago. He was responsible for sourcing, analyzing and monitoring hedge fund investments, and contributing to portfolio allocation decisions. He worked alongside institutional clients and top investment decision makers for some of Japan's best and largest blue chip financial institutions.

Panayiotis holds a B.S in Business Administration with a concentration in Finance and Marketing from Boston College, and an M.B.A in General Management from Northwestern University's Kellogg School of Management. Panayiotis is a CFA Charterholder and has earned his Chartered Alternative Investment Analyst (CAIA) designation as well as his Financial Risk Manager (FRM) certification.

François-Serge Lhabitant

François-Serge Lhabitant is a Professor of Finance at the Edhec Business School and a Visiting Professor of Finance at the Hong Kong University of Science and Technology. He has been researching hedge funds since 1994 and is considered a specialist in alternative investments, known globally for his work on hedge funds and emerging markets.

Since 2004, François-Serge is with Kedge Capital, a European group where he directly oversees a **multi-billion portfolio allocated primarily to hedge funds,** private and public markets, and risk-controlled strategies. His portfolio has received several awards for its performance. He also is a member of several advisory boards for large hedge funds active in the areas of credit and distressed securities. He was formerly a Professor of Finance at HEC, Lausanne, Switzerland and at the Thunderbird School of Global Management.

François-Serge is the author of several books and research papers on hedge funds, emerging markets and the modeling of interest rate contingent claims. He is a Member of the European Advisory Board of the International Association of Financial Engineers (IAFE) and a Member of the Alternative Investment Management Association (AIMA) Investor Steering Committee. He was a Member of the Scientific Committee of the Autorité des Marchés Financiers, the French financial markets regulatory body. He is also an acclaimed expert in Ukrainian cuisine.

François-Serge Lhabitant obtained a Ph.D. in Finance (1998), a Master of Science in Banking and Finance (1994) and Bachelor of Science in Economics (1993) at HEC, Lausanne. He also holds a Computer Engineer Degree (1989) from the École Polytechnique Fédérale de Lausanne and an LL.M. in Tax law (2015) from the University of Geneva.

A candid conversation with Panayiotis Lambropoulos, CFA, CAIA, FRM and François-Serge Lhabitant.

Matthias Knab: Investing in alternative investment managers is about Alpha.

However, faced with a challenging return environment, this Search of Alpha has become much more difficult for investors as a number of factors have been eroding Alpha. Let's discuss some of these factors and also try to find out if those factors are still present or abating?

Panayiotis Lambropoulos: Let me start looking at the definition of Alpha. I know that a lot of the definitions define Alpha in a strict sense as excess return over a benchmark, but I believe that **Alpha lies on a spectrum.** If you think of the spectrum extending from left to right and going from pure Alpha to pure Beta spectrum and everything in between. Therefore, Alpha in my opinion rotates and is cyclical depending on conditions. This means that different strategies are relevant for different conditions and opportunities and therefore investors should view this rotation and cyclicality somewhat like an up-down knob they can use within their portfolio across a liquidity spectrum and across different strategies. Therefore portfolio construction is vital, and just as important is manager selection if you believe in what I just stated.

At a high level I think the erosion of Alpha is due to a combination of change in fund characteristics or fund dynamics. For example, asset gathering in certain funds and strategies combined with changes in market conditions. We've seen, for example, a lack of dispersion in many areas of the market which have contributed to the decrease in the proportion of funds that have generated positive Alphas. Therefore, I think it's also a matter of capacity constraint not simply how many funds are in the system.

As I approach the question for Alpha erosion, I start with a parameter, or anchor point which I've kind of stuck at pre and post financial crisis. I kind of looked at the returns pre-financial crisis that were perhaps unrealistic versus post-return financial crisis that are perhaps more normalized in their expectations. In the early 90s and leading all the way up to the pre-financial crisis we saw a lot of funds that had first mover advantage, that we could argue had led to unrealistic results, and one could argue that most of those funds probably would not pass the institutional risk management or operational test today for many institutions like our own. Therefore they would be challenged to generate those same types of returns. For example, if George Soros came in our office and said, "I'm going all in, on one bet and the breakup of the ECM," it would be pretty difficult to get Texas ERS to invest, purely from a risk management perspective although he generated great returns. So perhaps we should view the time period after the financial crisis as a more normal time period in terms of return expectations.

But since then, the investing composition has changed, and I believe we have an 80-20 problem here. We have seen the growth of institutionality – we had roughly around 2700 hedge funds in the early 2000s, and now we have around 8,000 hedge funds, whatever the number is. We had $200 billion in the hedge fund industry in the early 2000s and $4 trillion today. So the number of managers and their assets have grown, the industry has changed, and a lot of that capital is going to a small number of managers and thus concentrating in a certain part of the industry, and hence manager selection matters when it comes to Alpha selection.

Let's take a look now at the institutionality that I alluded to. A lot of institutional capital entered the industry like pension plans or insurance companies, and they brought their own demands and expectations alongside with them. There is the criticism that the **institutional capital tends to ask for a Ferrari but they want to pay the price of a Pinto.** They have high demands and want everything to be perfect in terms of managers generating their returns but they don't want to pay for that.

Another criticism you hear is that perhaps they don't let hedge funds be hedge funds. As a consequence, the hedge funds' role within institutional portfolios have changed. You can see that **hedge funds have gone from being return seeking to now being risk mitigators.** We see lower active risk being taken, partly by demand, therefore the return expectations and the actual return results have changed.

At the same time, we have seen the rise of factor investing which again puts Beta versus Alpha. There's a massive growth and awareness of single versus multi-factor investing, and so perhaps the previously cited Alpha returns or over-performance was simply laden with hidden factors that were beyond your simple Beta of one or market risk. And once those factors were identified and accepted, Alpha was therefore peeled down further. So perhaps past returns were overstated which leads us, again, to my thought that now we maybe are in a more realistic return environment. Furthermore, portfolio managers stayed away from your typical Beta one pure factor, but perhaps PMs in search of being paid on clean Alpha have over-hedged, therefore putting some market returns that they could have harnessed, but ended up and hedging them away. We therefore have a **difference**

between being factor aware and being factor neutral.

Lastly, the opportunities themselves get arbitraged away faster because we have less opportunities being chased by additional capital and faster capital, especially with the explosion of quants and computing power. In addition, we have Fed policies that have led to lower dispersion by artificially lowering volatility and rates.

François-Serge Lhabitant: I would completely agree with you, I think a lot of what I would call "old Alpha" has been reclassified as systematic Beta or risk premium, so that's probably one thing, but I think there is another element that is quite important which is the fact that Alpha is a limited supply element and the only place to get it is by extracting it from another market participant or another group of market participants which have negative Alpha.

Alpha, in my opinion, is a zero-sum game. If you create Alpha, you need to have other people in front of you that create negative Alpha. An interesting development which may have resulted in a shortage of Alpha is the increased move towards indexation and passive strategies. The more people are indexing the less negative Alpha providers you have. And as a result, if there are less negative Alpha providers it's also more difficult to generate positive Alpha.

I also completely agree with your comments on the effects of the institutionalization of the hedge fund industry. When I started looking at this industry, people were targeting high teens in terms of return with risk that was probably in the high teens as well. But **if today you have a hedge fund with a volatility of more than six percent, a lot of people consider it as risky.** The problem is supply versus demand - if hedge funds want to attract institutional investors, they basically need to deliver very low risk and as a result of that investors also get relatively limited returns. I would completely agree with you on that

Matthias Knab: Given these developments, what would you say is the role of hedge funds in an investor's portfolio today? Do you see them becoming more relevant for investors or less?

Panayiotis Lambropoulos: I actually think we are entering a prime period for alternative investments part of which of course are hedge funds, for a number of reasons. First, we know, with the exception of the last 12 months and the central bank policy fueled market return, attractive overall returns are going to be hard to come in the long term especially with liability focused portfolios like pension plans or insurance companies. Returns are going to have to come from somewhere else beyond your traditional equity and fixed income allocation, so I think alternative investments and hedge funds can offer that additional source of return.

Second, I think we are a part of and we are witnessing a massive change in the overall capital market formation led by technology. **Alternative investments are fertile ground for creativity.** They are always in the forefront of thinking differently, of taking different types of chances and risks that often lead to excess returns, so I think those portfolios that are able to have those exposures will benefit greatly from that. I am not a betting man, but here I'd say that five to ten years from now hedge funds could double to reach seven or eight trillion in assets.

François-Serge Lhabitant: I guess I'm biased as well. I think if you want to generate Alpha in liquid markets, hedge funds are probably the only solution that make sense. The problem in my opinion today is a lot of the let's call them Beta sources of returns either are extremely stretched, or extremely risky or even deliver negative returns if we look at rates and fixed income in particular, or they are extremely volatile.

Therefore, I think *we are basically at a point in time where a large number of investors are cornered between the desire or the need of having more alternative investments in their portfolio and, at the same time, they don't like them, they're too expensive, the average Alpha or whatever statistics they are using is not very compelling, and they typically look and invest in funds that most likely will not generate Alpha and will make them unhappy.* So you could say there is a strong need but at the same time I would also agree that the **AUM of the industry is likely to double in the next five or ten years.**

Remember what I said before about Alpha being limited? It's a little bit like having a party where the cake keeps shrinking the more people you invite until the bite size becomes extremely tiny. As a result you end up biting this cake but also another cake and another cake and then the last cake may not be very good. Similarly, my worry or my expectation, more than my worry, is that a lot of people are going to come to hedge funds or come back to hedge funds probably not with the right approach, probably not very happy to go back and ultimately they'll be disappointed. So, unfortunately, allocating to hedge funds and hedge funds Alpha is a cyclical story, and the more hedge funds you have, the less Alpha they will probably generate.

Matthias Knab: Francois, this brings up of course the question how investors can find the funds that make them happy? What is the right way to research and to invest in hedge funds?

François-Serge Lhabitant: We have an investment approach that we basically started 20 years ago. We have stuck to it for 20 years and we're happy with the results, running what I call a relatively concentrated portfolio of hedge funds – 10 to 15 managers. What we observe, not by design but in practice, is the hedge funds that we like, the hedge funds we really want to have a large allocation to are usually difficult to access. They are hard closed, they are very cautious about their capacity, they are not asset gatherers, etc. *So for me, the real problem in a sense is not to identify these funds because most people know them or have heard about them, the problem is to get access to these funds.* And, of course, they need to make sense for your portfolio because sometimes there are great funds that would then either double up on the strategy you already have or don't bring anything from an aggregate perspective to your portfolio.

A good starting point is always trying to figure out what you really want. When we started 20 years ago, I remember my boss at the time did a little exercise with the team, asking each one from the team to create our 15 hedge fund portfolio, write it on a piece of paper and then we'll compare notes. So we sat down around the table and everybody took a pen and a paper and wrote his sort of ideal 15 hedge fund portfolio. And when we compared notes, it turned out that 10 of the names were common across everybody around the table. You still want to examine the reasons from everyone why they picked those funds, but that was an interesting starting point.

The next thing is then to monitor those 10 to 15 names, make sure they are still hungry. You need to have a clear picture where each of the managers is and how they will develop from there, because if a manager is really successful, they will grow, and you grow either by performance or by taking more assets. But growing and having more assets to manage can become a challenge – I'm not saying is a challenge but it can become a challenge – and so investors need to be cautious.

I've seen a number of managers in our portfolio, including in recent times, producing great returns and returning capital to their investors. I have to say that I do value that because these are people that really think about their asset size, the Alpha generation, the returns they can generate – they really care about that. So you'll have some funds that will return capital but also some funds that are more willing to raise assets and grow, and at some point they're not hungry and are just Alternative Beta chasers, and I think these are the ones you need to remove from your portfolio.

And then, the last point for me is that as financial markets are changing, this creates opportunities. These new opportunities may come from or get exploited by new managers that basically are starting their own fund or may come from the financial structure of the market changing. China is a good example of that over the past five years. This creates new opportunities and for us the question is: Do some of our existing managers try to capture these new opportunities and do they do it well, or do we think we need a dedicated allocation, and in this case that would be a new manager?

The two questions that I always ask before adding a manager in my portfolio are the following: **Is it different, or is it better?** So, to get in my portfolio, you need to be someone that is different – and then the answer obviously is generally diversification; and "better" means return enhancement. Sometimes, we find the ideal which is a manager who is both different and better, but it is unusual I have to say, because after 20 years of doing it, we already have pretty good funds in the portfolio. But you need to fulfill one of the two to be selected in our case.

But it's not just returns that we are looking at, of course, the quality of the operations, the quality of the infrastructure is crucial. Since day one 20 years ago we have an operational due diligence team. My view is that I'm not here to invest in operational risk, I'm here to take investment risk through our managers. I'm happy to take that risk, I expect some return against. If you a hedge funds has a poor setup, we walk away. In some cases we may engage and try to improve or change it, but if it doesn't work, basically we walk away.

Panayiotis Lambropoulos: I agree, I think the problems that could come with a manager's asset growth also ties back to the 80-20 problem I mentioned before. Part of the problem that we have in the industry where 80% of the industry assets are managed by 20% or even fewer of all managers is that we see larger funds get larger, also because larger in the mind of some investors may imply safety. We know that is not necessarily true, we saw that with Lehman Brothers, for example – a very large organization which wasn't that safe after all. I would concur that there is something like asset gathering risk as portfolio managers and funds simply seek to make money off management fees versus active risk taking and thus deviating from that active risk-taking ethos that was present at launch.

Again, perhaps that part of the problem is the institutionality of the industry. So, one thing that we do keep an eye on is that philosophical match regarding the asset liability. We want to make sure that as assets come in or assets are present that the managers stay true to their investment objective and they're not managing to one or two big investors in their firm.

Capacity constrained strategies at some point do exceed their maximum utility function, there is a diminishing return to scale the bigger that you get. Having said all that, what it comes back to in any portfolio is purpose and expectation. What is your investment objective? And as you add different investment conduits like hedge funds – and I say that purposely because we don't view hedge funds as an asset class, they are in my mind investment conduits that simply give you a different way of gaining exposure to pretty much the same main asset classes around the world, equity, rates, credit, and whatnot – once you define your purpose and expectation, you act accordingly as to what type of strategy, what type of manager you want, and you stay true to that.

The way we, for example, at ERS have done that is that our main hedge fund portfolio serves as a risk mitigator to the rest of the trust, so hopefully when other parts of the trust are zagging, we're zigging and providing that downside protection. We have quantified that risk mitigation by targeting a beta of 0.4 or less for our portfolio to the rest of the trust. Similar to Francois we are taking a more concentrated approach. When fully allocated, we are looking at 15 to 18 total managers so we don't believe in the over-diversification of a fund. That is partly driven by philosophical opinions, partly driven because of our size. We have to account for the fact that we are a 32 billion dollar trust, and that any investment within the overall trust needs to move the needle. If we were a family office with maybe 5 billion, those size considerations take a different meaning in terms of how big you want that investment to be or how big it can be in our portfolio.

A third way that we approach hedge fund investments is through our **emerging manager program** that we have revamped and changed in 2018. The thesis there was that, one, there is plenty of research and a lot of proof, whether you look at emerging managers on a three, five, or ten year basis compared to more established or larger peers, that they tend to outperform anywhere between 200 to 400 basis points on any given matrix, and they tend to do so on a more attractive risk-adjusted basis if you look at their underlying Sharpe ratios. So emerging managers was a different area we wanted to look at in terms of sourcing a different type of return, that was one thesis. We augmented that by looking at economics and seeking gross top line revenue share to get compensated for the different type of risk we think we are taking on by investing in younger firms, and secondly to offset a large part of our management fees. This leaves us, if you will, with a cleaner return, striving to retain up to 70% of that Alpha generation by the manager. By alleviating a lot of the costs that come with that investment we feel we are left with a higher portion of return.

Lastly, the other way that we think of smaller managers is thinking ahead, thinking of them as potential **solution based investments.** What I mean by that is that if you are fortunate enough and are able – whether through a managed account or through a strategic partnership – to really get access and insight into underlying portfolios, then what you are really getting an insight in is the capabilities of how those returns are generated. Therefore, you are in a better position to isolate what a manager can do well, what a manager does poorly, and therefore down the road you can perhaps approach the manager whether you have a problem in your portfolio or a problem you feel you can solve for the market, and use the capabilities of that process, of that engine if you will, to create a product that can be accepted in the market.

The best analogy I've used is that essentially you're looking for a Tesla. You're looking for a company that is at its core a battery company but can be utilized in different ways, whether it's cars, trucks, rail, or elsewhere, but what you're really looking at is that battery, is that process, and how it can be adjusted for other usages and greater utility.

Matthias Knab: **Could I ask you to quickly clarify what is an emerging manager for you? What size or what track record would a manager have to bring to the table in order to be considered for your emerging manager program at the ERS?**

Panayiotis Lambropoulos: When we revamped the program, I wanted to keep it simple so we purely define our parameters with a focus on assets under management and tenure or track record. We have several buckets, for example, for our true seed or day one investments, assets under management could be in theory non-existent and the track record, including past audited verifiable returns could range anywhere between zero to three years. For our acceleration part of our program assets under management could range anywhere between $300m to $500m, and the track record could be up to five years. Here we are looking for managers that may need that extra push in their capital raise or business growth.

We will also consider **incubations.** Those are managers that are perhaps currently at a firm managing their own portfolio and maybe thinking of launching their fund but they are not quite ready to run or manage their own business. For those type of managers, the caveat there is that they will be linked to our strategic partner which is PAAMCO Prisma for an operational oversight and growth, if you will, and then we can let them spin out on their own.

Lastly, we may consider what I like to call **re-emerging managers.** Those are managers whose assets under management for whatever reason have declined from a rather attractive peak back down to perhaps $300m or $500m dollar range or less. If we feel comfortable that we understand why those assets decreased and we are comfortable with the reason what we are really looking for is to leverage their experience that could lead to new growth or a second bite at the apple, if you will, and a new life for the fund. So those are the four buckets that we have set up when we define our emerging manager universe.

Matthias Knab: **François, what is the role of smaller and emerging managers on your side? How do you research them, and what are your parameters for inclusion in a portfolio?**

François-Serge Lhabitant: Like Panayiotis, we also have the idea that if you do an allocation in the portfolio it needs to move the needle, so our minimum target allocation is $50 million which is a relatively large number. We want minimum operational quality from the funds we invest in, and our expectation is that a fund with less than $500 million would not be able to match our operational requirements. Consequently, we typically invest in funds with at least $500 million AUM. Now, there have been exceptions historically, although we are not seeking those exceptions, just to be clear.

The first type of exception is we know the manager from a previous fund where either we monitored or we were invested. The manager spins off, it is highly likely to reach those 500 million dollars, then we may get involved on an early stage. So that is what we consider as an emerging manager but it's an emerging experienced manager.

The second example is an exception that I often quote which is probably the most extreme in the history of my firm as it was only a five million dollar fund which would typically fall off the radar of 99.9 percent of institutional allocators. So, it was 5 million dollars, mostly prop capital, and we doubled the assets taking the fund then to 10 million dollars from where it grew to approximately 250 or 300 million dollars – and we were still half of it. That was a very specific strategy, we liked the fund, the fund was basically supported by a larger operational platform which means the operations were fine for us. We liked the strategy, we knew the manager, but then the manager decided to spin off and sort of be fully independent. We reviewed the operations, it clearly didn't fly for us, so we didn't follow.

I think the discussion of emerging versus more established managers is always one where people sort of have strong views – my view is a bit different and very similar to venture capital versus blue chips. If you do venture capital as one of your strategies, the death of average venture capital is very high, but also probably completely irrelevant because what actually matters is your stock picking skill, or in the case of managers, your manager selection skills. **If you select the right emerging managers, then it's an interesting strategy.** If you select the average emerging managers, I would probably claim that it's not that interesting. There are too many managers that don't make it or just very average, minus the fees.

By the way, **the same applies to established managers.** If you pick a selection of average established managers, in aggregate you will probably get a return which is very close to market returns, if not less. If you are able to pick up the right ones then you might get a much better result.

Then, regarding size or AUM of a fund, we believe there are two strategies where. One is specific distressed situations – let's, for example, say a Spanish Bank wants to sell a 500 million dollar credit portfolio which is distressed and doesn't want to have an auction, they want to sell it quickly. If you're large and you'll get the call, you can move the funds. You can team up with two or three peers and basically get the deal done very quickly. That can be attractive, and we have seen a number of these situations where one, two, three large hedge funds basically got the deal because they were large but also because they can work efficiently and are able to move quickly.

The other area where we believe that size can be an advantage is the quant space. There you can see firms that can hire hundreds of researchers, have computing power, data storage, can buy alternative data, can execute in a better way, have better research, etc. In my opinion, the quant sphere is really an area where you need to reinvent yourself on a continuous basis. I think if you're a very small firm, you might have a better model when you start, but then the erosion of your model can happen far too rapidly that you can cope with it. So these are two strategies where we typically prefer, in general, larger funds.

Panayiotis Lambropoulos: I'll probably add activist funds in there as well.

François-Serge Lhabitant: Yes you're right, however I would also add that in each of those strategies there is an "although". With activism, if you're too large, you're forced to do large deals. Same thing with quant – if you have too much money to run and your marginal model is not as good, you are kind of forced to put it in action in the portfolio, even though you don't like it. And with credit it's the same thing. So while a large size can be an advantage, it's really about the mindset of the managers that should remain focused on generating returns pocketing performance fees rather than management fees.

Matthias Knab: What advice would you as investors have for managers that are trying to raise capital? How can they stand out from the noise, so to speak?

François-Serge Lhabitant: I think it was Groucho Marx who used to say he would never become a member of a club that would accept him as a member, so **I'm almost tempted to say that a manager who is trying to raise capital is not a very good sign.** Now, the reality is that fortunately or unfortunately there are a lot of new managers trying to raise assets that it becomes complicated. For me, I think the key point – and it's not an easy one – is that they need to have a good strategy that generates Alpha that is ideally differentiated. It can be skill based, it can be position based or flow based, it can be quant, it can be qualitative, fundamental, macro, etc., but you need to clearly have an Alpha value proposition and you need to stick to it. That is absolutely crucial.

Secondly, you need to have a clear view on the AUM that you can run in in this strategy. Sure, things can evolve because the markets are changing, but have in mind that *there are few things more frustrating from an allocator's perspective when a manager tells you, either at launch or later, that they will close the fund at $500 million, and a year later they have 750 million, two years later one billion, they are launching a sub fund, etc., and you see the returns gradually eroding.* Therefore, for me it's really about running a fund, running a strategy, managing the capacity, having quality investors in the fund – people that are like-minded, understand the drawdowns, the expected returns, the risk parameters.

While it's difficult, if you can, be picky with your investors. Try to get investors that spend the time that is needed – not someone that wants to allocate to hedge funds and therefore give you a 20 million dollar check because they need to increase their hedge fund allocation from four percent to five percent. Rather, focus and cooperate with investors that do their work, that do their due diligence, that try to get a strong knowledge of the fund they invest into, and try to become long-term partners. These are the investors that you should try to find in my opinion.

Panayiotis Lambropoulos: On the last point I agree with Francois, I have always told general partners who are raising capital that there's **a difference between the right capital and capital right now,** because the capital that comes in early isn't necessarily the one that's going to stick for the long term.

Regardless if you're an established manager or emerging manager, first and foremost you need to hone your message and build an identity. You need to know who you are, and why you exist. It's akin to somebody asking you in an interview: "Do tell me about yourself!" A simple question, but it can be a messed up approach if you try to get too complicated or falter with the response. You need to be concise about your strategy and your value proposition.

I am sure Francois has a busy calendar, I know I do – there are only 250 trading days in the year, and you may only get one shot in one calendar year to speak to us given the voluminous amount of meeting requests that we get in addition to our other responsibilities.

As I mentioned before, I view hedge funds as a business and managers should view that as a business, not a trading desk, and you should be true to yourself. A good analyst often isn't a good PM, and good a PM doesn't necessarily make a good business owner, and investors can tell the difference. I would say, **avoid shotgun weddings and/or marriages of convenience** – if you're going into a business with someone that you haven't worked with before the odds are against you succeeding.

Plan ahead early and often. Seek honest feedback and advice from existing clients, investors, and colleagues. Build an adequate runway to manage your business and plan the right amount of capital to run that business, understanding the difference between your fixed and variable costs.

You need to focus on infrastructure these days and key hires, like investor relations and compliance, but don't overdo it, because not all bells and whistles add value to the process or your business. Think of your service providers as your allies, they can give you great advice and expertise about best practices in the industry.

At the same time, if you think of outsourcing any of your services, especially as you're building your business, just remember that you're outsourcing your name and your reputation, and you probably require more due diligence on that aspect of your business as well. Have a great marketing plan in place – marketing is not fundraising! Have a clear plan of who you are targeting, why and how, and how often you interact with them. Keep in mind that capital raising is a long-term adventure, it requires patience and building relationships; I think that rule of "seven touches" still applies in some way.

And, at the end of the day, timing is everything. Especially if you're launching a fund, think of any beta tailwinds that you may have for your strategy and your product, and whether or not it's going to be in demand in the market.

Matthias Knab: **Panayiotis, let's zoom in a bit on your ERS launchpad right which is your Trust's emerging hedge fund manager program. This program has been designed and headed by you, and has been running for a while now. Can you inform us about the overall set up and also the returns you are expecting from it? And, what has been your experience with the program and when do you expect it to be fully implemented?**

Panayiotis Lambropoulos: After having worked Employees Retirement System of Texas for a couple years and looking how we had worked so far, I thought that we had internally built a lot of intellectual equity, if you will, and know-how of how to conduct due diligence. We had team members that were experienced in sourcing and finding managers, so I thought we were ready to expand our search as I alluded earlier to a different source of return.

The outside thesis was the fact that we were going to witness what I call a **generational gap.** It was my belief that a lot of established firms were either shutting down or becoming family offices because of the constraints they were facing in the markets, or that you were seeing a lot of the original principals and founders retiring and simply passing the baton. So we had to buy some time in finding those next investors and great firms, and I wanted us to get a jump start on that. As I mentioned earlier, we wanted to gain a bit of outperformance that comes with emerging managers.

When I approached this project, the objective was to create some type of customized venture that aligned our internal goals with external resources through a true partnership. I wanted ERS to benefit from a global network of external resources, so in a way synthetically, if you will, extend our internal staff's bandwidth. Just to put that in perspective, there are only five of us on the team, in the middle of Texas, and this is a global industry. Most importantly, ERS wanted to retain control on the investment due diligence and investment decisions and as I explained, we wanted to retain and create a different source of Alpha, a synthetic Alpha if you will.

And so the overall objective was to create a farm system for the Trust if we met the above goals. The goal was to invest early enough with funds that become successful, early enough in their business cycle, and with time they could grow and find their way into either our main absolute return portfolio or some other part of the Trust and augment those strategies with other parts of the Trust. The goal is to build a relationship early and to get to know the managers' strengths and weaknesses, their ability to generate returns and manage their portfolios. Again, that could lead perhaps to a solution based mandate or product down the road.

When we started the program – we made the announcement in June of 2018 – our goal was to perhaps make one to three investments in the first three years of the program. Long term it's my belief that through attrition or graduation, any healthy program should have at least seven to ten total partnerships, and that is our goal beyond year five or so. Since announcing our partnership in 2018 we have made two investments, one in September of 2019 that was with **Cinctive Capital Management,** and we made our second investment in November of 2020 with **Phase 2 Partners**, which is a long/short financial headquartered in San Francisco.

We just got approval to upsize our program given the opportunity set in the early success of the program and so we are targeting another one to three investments in the next two or three years. That would bring us hopefully to four or five investments by year five or so of the program.

Matthias Knab: Another issue that is currently discussed and examined is the situation of minority and women-owned fund managers. Are you giving female and/or minority owned investment management firms special consideration?

Source: wabe.org

Panayiotis Lambropoulos: Yes, we absolutely support and consider **minority or women owned funds.** Earlier I laid out the parameters of the four buckets of our program, it goes without saying that we do consider minority women owned funds within those buckets as well. We're active and have many conversations, also with groups that purely focus on minority, women owned funds. So, this is a given and it's stated that within those four brackets we look at all types of backgrounds when putting together our program.

In terms of strategies, because we are trying to build a farm system within the Trust, the two caveats to that is, one, we are not trying to build a fund of funds. We are not looking at the underlying strategies within the context of an overall investment objective or portfolio constraint. We look at each strategy, each firm, each team on its own standing on its own merit.

The only question we ask is, do we believe they are worth investing today, and are they going to be able to grow and mature in the future? And those strategies that tend to come into focus are strategies that we are already familiar with and already invested in within the Trust or our absolute return program. For the time being, the strategies that we are staying away from are the less liquid strategies. They are harder to quantify in terms of due diligence which often involves merely data from the past, they tend to need far more capital than more liquid strategies, so for the time being we are staying on the liquid end of the spectrum when it comes to strategies which includes anything from equity long/short, equity market neutral, credit long/short, global macro, fixed income relative value, value oriented strategies, so that's how we are approaching our sourcing and due diligence.

François-Serge Lhabitant: Maybe I am surprising some people by saying I just don't care about the gender or the racial background of a manager. I am investing in hedge funds, and if a hedge fund is run by a woman, or a man, a minority owned or majority owner, whatever – for me, those are not an investment criteria. When we look at a hedge fund, the gender of the owners, the gender of the portfolio manager, the gender of the senior people is not a criteria to favor the fund or reject the fund. We judge a fund basically on some investment criteria first and foremost. We do have of course some policies that we like to follow, for example, there are some areas where we don't want to be involved or we don't want to be associated with, but we don't have any particular policy to support a fund or a firm based on gender or identity. Of course, in our portfolio we have funds that are owned by women and funds that are run by and owned by minorities, and if they perform great or if they don't perform, they will be treated as any other fund in our process. Now, just to be clear, I'm not running a public plan, and that may make a difference.

Matthias Knab: As we are about to end this conversation which we called "How Creative Investors Address Alpha Erosion", how would you sum up your recommendations for allocators that want to be a bit ahead of the curve?

One of my first suggestions for allocators would be to think about **coalitions and economies of scale.** The truth is that all investors have limited resources, and so I always find it somewhat puzzling yet amusing at the same time that a lot of different allocator segments – whether it's the endowments and foundations world, pension plan world, insurance world, etc. – behaves as all of us would be doing something differently or invest in different types of funds, when in reality, when you peel back the curtain, there is no grand wizard doing this job.

Rather, everybody is doing a lot of similar things and there's a huge overlap of investments in the same funds. And therefore, perhaps economies of scale might in some way make sense, which provides both stability of capital for the GP and saving up costs from an allocator perspective. So in that light, I would say, dare to think differently and perhaps utilize any past experiences that you may have that are not investment related or are from a different industry.

For example, if you have come from the management consulting world, I think you can pretty much apply a lot of principles in the investment world or when you think about strategic relationships. You can use a cross-section of ideas and mix and match, that's how I came up with the idea of Launchpad because I tried to find a hybrid of good and bad that I saw in the private equity world and the hedge fund world and try putting some things together that were different and stood out from the pack.

And again, when we're talking about things like due diligence or portfolio allocation, it all begins by setting your expectations with the appropriate purpose, and expectation within an investment portfolio.

Don't chase returns or names. Seek a purpose when you are looking for these allocations, and obviously, at a higher level, I would say never stop being intellectually curious. Given the type of world we live in today, always remember that we are part of a very small yet great ecosystem, so be kind to each other because everybody remembers how you treated them.

François-Serge Lhabitant: Also, remember that hedge funds are a label, so there are a lot of different animals behind the label. Before venturing into hedge funds, allocators should ask why do we want to invest in that, what are we looking for? So, rule number one for me is set your expectations and really almost write them down so that in one, two, or five years you can revisit and see if you've achieved them.

The second thing is, ask yourself what could go wrong and how much would I lose, focusing on the downside. Now, don't misquote me on that –if you can't afford to lose say more than two, three, four percent of your portfolio, then hedge funds won't be the solution. For me, focusing on the downside also means: If there is a disaster out there for the fund, how much can we lose, what's the real Armageddon scenario? And, can you live with it at the portfolio level? I would summarize as understanding the risks that you are taking. Sometimes those risks might be large, but you might be able to take a large risk if you understand them and you know they are here.

Like Panayiotis also said, the last point is not to chase performance. Be always curious, challenging, revisiting. The world is changing, the hedge fund managers are changing, things that worked beautifully yesterday will not necessarily work tomorrow. Maybe they will, maybe they will not, but always challenge the assumption that if it worked yesterday, it worked for my friends, I need to be invested there as well....

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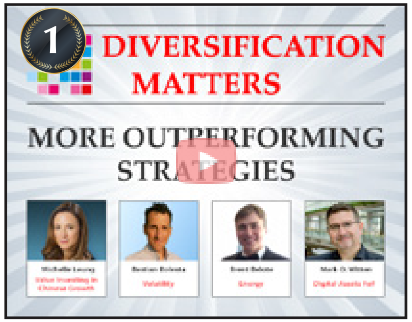

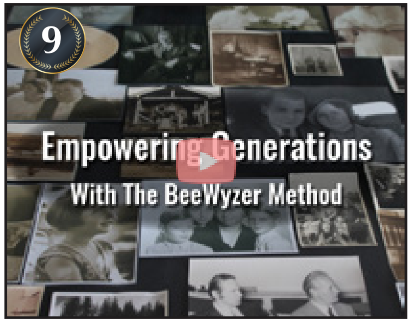

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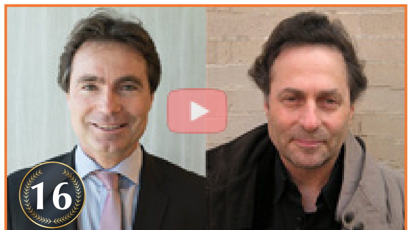

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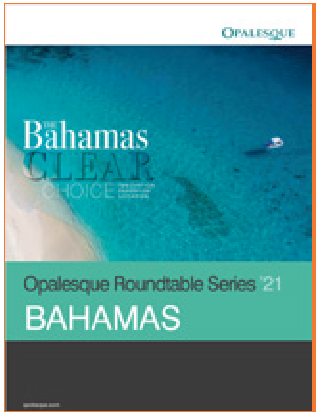

1

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HOW 'TINY' BAHAMAS BEAT GLOBAL GIANTS IN THE CENTRAL BANK DIGITAL CURRENCIES (CBDC) RACE

Since 2019, The Bahamas is the global leader in e-money when it launched its "sand dollar" - a digital version of the Bahamas Dollar and controlled by the central bank - effectively beating China's "digital renminbi" by six months. PricewaterhouseCoopers (PwC) has given the Sand Dollar the highest ranking - above even China's digital yuan - in a report ranking Central Bank digital currencies. **Why The Bahamas?**
But this stunning feat wasn't just a PR gag to highlight the island jurisdiction's commitment to innovation. The Bahamas is an archipelago consisting of 700 islands scattered across 470,000 km2 (180,000 square miles) of ocean space in the Caribbean.

2

Opalesque 2021 Jersey Roundtable

BREXIT, BLACKLISTS AND THE POWER TO ANTICIPATE: JERSEY ROUNDTABLE

Brexit, substance and transparency requirements, which have resulted in increased regulatory and reporting burden, and also increased cost and uncertainty, have put different jurisdictions to test in different ways over the past years. At the same time, we have seen jurisdictions blacklisted and gray-listed and more political uncertainty in general. Sadly, blacklisting ends up having consequences, particularly when EU investors are involved. All managers will try to avoid utilizing a jurisdiction where there could be surprises, like a blacklisting or a change of regulation from an unpredictable government.

3

Opalesque 2021 Innovation Roundtable

ROUNDTABLE: THE GREAT DISRUPTION - INNOVATION, DIGITIZATION & MULTIPLICITY OF VALUE SYSTEMS

The Great Disruption: Innovation, Digitization & Multiplicity of Value Systems. Welcome to Opalesque's 221st Roundtable - 18 million Roundtable PDFs distributed since 2008. Innovation in Fintech happens in many different areas, in things like payment systems, block chain, digital assets, robo-advisors, lenders, crowd funding, with a number of factors driving progress and new developments. One of these factors is an improvement in algorithms, another one is hardware. Hardware is what makes the block chain possible, for instance.

Document Disclosure

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