

Opalesque Round Table Series '12

GENEVA

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Editor's Note

(Some) Swiss pension schemes embrace alternative investments, including seeding

At the end of 2010, the governing board of the CERN Pension Fund decided to adopt a capital preservation approach in their investment strategy; the objective was to move away from the classic 60/40 model and follow an absolute return objective. The fund started to invest in alternative investments via direct investments. Encouraged by a positive performance in 2011, the fund has since increased this allocation, a decision which was also supported by independent analysis by the fund's risk consultant.

Furthermore, as many Swiss institutional investors still hesitate to engage in alternative investments, it came as a surprise for most insiders when Geneva-based asset management company Argos Investment Managers secured seed capital for two of their new funds from Swiss pension funds.

Why hedge fund investments make sense for pensions

A lot of pension plans realize that nowadays it is not very safe to be in bonds. There are also issues with equities. Long only equity funds were a disappointment for many investors over the last decade. Even though the outlook for equities might be positive in the long term, the volatility can have negative short- to mid-term side effects on the pensions' funding ratios (asset-liabilities). When it comes to withstanding volatility, pension plans are in a very different position from family offices, banks or other investor groups. Alternative investments should be considered to complement the traditional asset mix, both as performance contributor and also to help reduce the portfolio volatility.

Are pension plans always long term investors?

The idea that pension plans are very long term investors is a simplistic view of the reality, because at the end of the day they are in an annual mark-to-market business, just as most hedge funds are in a monthly mark-to-market business. Pensions need to calculate their funding ratio at the end of the fiscal year, and specifically in Switzerland, when the ratio is below a certain threshold, measures have to be taken to cover the gap. Also for that purpose hedge funds are particularly attractive, because they reduce the risk of underfunding given their "absolute return" nature.

This Opalesque Roundtable, sponsored by Eurex, IDS and Joe Taussig, took place November 16th 2012 at the office of EFG in Geneva with:

- Gregoire Haenni, **Chief Investment Officer, CERN Pension Fund**
- Dominique Grandchamp, **Senior Investment Consultant, Mercer Investment Consulting**
- Charles-Henry Monchau, **Head of Portfolio Management, EFG Asset Management**
- Henrik de Koning, **Managing Director, UBS**
- Jean Keller, **Chief Executive Officer, Argos Investment Managers**
- Juan Martini, **Senior Vice President, Institutional Investor Relation, Eurex**
- Ian Hamilton, **Group Chairman, Investment Data Services Group (IDS)**
- Joe Taussig, **Owner, Taussig Capital**

The group also discussed:

- **Why is Mercer, one of the world's largest investment consultants with \$4,000bn of assets under advisory, favoring hedge funds as part of an institutional asset allocation?**
- **Are hedge funds an alpha generator or a smart beta generator?**
- **What do CERN Pension Fund's asymmetric return solutions look like? What does CERN require from their external managers?**
- **How do pension funds address tail-risk?**
- **Behavioral biases around real assets: why can liquid outperform illiquid?**
- **What is the average holding period of institutions? How long term are they really?**
- **What is the "Wealthy Nations" approach to bond investing?**
- **The advantages of Eurex Clearing's full segregation**
- **What can global hedge funds learn from South Africa?**

- Have we gone too far? Can the next Brevan Howard, SAC Capital (or whoever) emerge in the regulatory environment of today?
- How can a hedge fund manager start a reinsurance company and create a regulated vehicle that raises assets prodigiously to deliver his skills, with a virtual certainty to outperform his flagship fund with the same strategy for \$100,000 in setup costs?
- What happened to funds of hedge funds in Geneva?
- How is traditional Swiss Private Banking doing?
- What kind of artist would Picasso have been if he had no paints, no brushes, and no canvas?

Matthias Knab
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Opalesque Geneva Roundtable Sponsor



Participant Profiles



(LEFT TO RIGHT)

Charles-Henry Monchau, Gregoire Haenni, Henrik de Koning, Dominique Grandchamp, Juan Martini, Ian Hamilton
Jean Keller, Joe Taussig, Matthias Knab

Cover Picture: Aerial View of the CERN

CERN, the European Organization for Nuclear Research, was established in 1954 and counts today 20 member states and 7 observers. CERN is based in the northwest suburbs of Geneva on the Franco–Swiss border and operates the world's largest particle physics laboratory. CERN's main function is to provide the particle accelerators and other infrastructure needed for high-energy physics research. The laboratory employs just under 2,400 full-time employees, 1,500 part-time employees, and hosts some 10,000 visiting scientists and engineers, representing 608 universities and research facilities and 113 nationalities. CERN is also the birthplace of the World Wide Web.

Introduction

Gregoire Haenni
CERN Pension Fund

My name is Gregoire Haenni. I am the CIO of the CERN Pension Fund. We are a team of 20 people, including eight investment professionals.

In 2010 the Governing Board of the Pension Fund has decided to adapt the investment strategy towards a capital preservation approach, and the objective was to move away from the classic 60/40 approach and follow an absolute return objective.

It is not only the target return that is of importance, but also the quality of the returns. Therefore, we work with a matrix of objectives. Also in other components of our investment process, we operate differently from other pension funds. For example, every year we receive from the risk consultant an absolute risk limit, and as long as we stay within the clear risk control framework, as well as within the absolute risk limit, we have some flexibility.

50% of the SFr3.8bn under management are managed internally and 50% are externalized. The investment strategy is top-down driven with the objective to define investment themes but also market threats. The challenge is to protect the portfolio against market threats while at the same time expose it to investment opportunities.

Our portfolio can be illustrated using the picture of a pyramid. On the top of the pyramid are beta strategies, and the bottom of the strategies are represented by alpha strategies that are less dependent on markets to perform. Our alpha strategies include real estate, private equity, and alternative investments. In the middle of our pyramid is a special category which can be viewed as a mix of alpha and beta strategies.

Joe Taussig
Taussig Capital

I am Joe Taussig. We partner with hedge fund managers to create reinsurance companies and banks, where the managers get to manage all of the investable assets.

The best-known that we have been involved with is Greenlight Capital Re. It is a publicly traded company, so you can research it on the SEC website. It has a little over \$2bn in assets and at the end of last year, it had outperformed the Greenlight funds by about 6% per year since inception.

The hedge fund managers create reinsurers because there is almost a certainty that they will outperform their funds, but they also gather assets at a prodigious rate, all of which are permanent capital.

Charles-Henry Monchau
EFG Bank

My name is Charles-Henry Monchau. I am Head of Investments for the European offices of EFG Bank. EFG is a Swiss private bank that was created in 1995. We now have about SFr80bn assets under management.

Over time, the bank decided to also develop an asset management unit which is called EFG Asset Management. This unit currently employs and runs around \$7bn in assets across discretionary mandates and our own range of funds called New Capital. We now have \$1.5bn in these funds. In my current role, I am heading the discretionary and advisory team of about 20 people for our European offices.

Jean Keller
Argos Investment Managers

I am Jean Keller. I work for a Geneva-based asset management company called Argos Investment Managers. We are a small, recently created firm and run in excess of Euros 200mn. Our aim is to be a place where people who have investment talent can express this talent away from large bureaucratic environments, away from any distraction from wealth management and internal politics.

At the moment, we run four strategies. We have a Pan-European micro-cap strategy, an equity long/short systematic where we try to exploit some of the findings of behavioral finance theory, a global equity long-only fund, and we have a fund investing directly in liquid real assets.

We find the current environment a great time to start a new company; it has been very interesting and a very exciting ride. At the moment, we actually see a lot of investors are keen to hear new stories about very high value-added and specialist expertise.

Henrik de Koning
UBS Investment Bank

I am Henrik de Koning. I work for UBS Investment Bank, which I joined about 10 years ago, initially to setup the structured fund business within the equity derivatives division. I fulfilled that function for about five years, building a sizable and successful fund wrapping operation.

Early 2008, I decided to create an independent specialized boutique to help hedge funds to access the EU regulated fund space, which I identified as a major business opportunity at the time. However the financial crisis came along and three years into the crisis, I had to come to the conclusion that the potential was limited for a small independent organization in this space. I realized that, whereas, there is still a lot of value to add on this level, I could provide for a much more attractive and comprehensive solution set from within a larger organization.

I was given the opportunity to rejoin UBS about two years ago and I now run a group, which focuses on designing and implementing solutions for hedge funds, or funds of hedge funds, and hedge fund clients. In our mandate to service this client base, we serve as a single reference point for discussions around hedge fund linked products and solutions.

Dominique Grandchamp
Mercer

My name is Dominique Grandchamp. I am Senior Investment Consultant at Mercer, one of the world's largest investment consultants with \$4'000bn assets under advisory. Prior to that, I used to work for 10 years as a portfolio manager and analyst for institutional asset management firms in the field of alternative investments.

In my current position, I am advising large pension plans, insurance groups, banks and family offices. I assist with every aspect of institutional investing from asset liability studies, strategic consulting across all asset classes, manager selection, portfolio controlling, risk management and fiduciary management. What makes us unique is the fact that we have a global footprint of consultants in over 46 countries and more than 120 research analysts covering all major asset classes from long-only to alternatives round the clock, around the globe. Also we are one of the few consultants who give advice to wealth management clients such as banks and family offices.

Juan Martini
Eurex Group

My name is Juan Martini. At Eurex Group in Zurich, I am responsible for institutional investors relations mainly serving customers based in Switzerland and Italy.

Eurex Exchange is a one-stop-shop with more than 1,800 products to trade. Here you will find one of world's most active markets in euro-based fixed income and equity index derivatives, including sector derivatives. In addition, we have a broad offering in single equity products. And there's more. Eurex provides a growing range of alternative asset classes as well as commodity derivatives including immediate access to Europe's most dynamic energy market. Eurex Exchange participants make up a global distribution network of more than 8,000 traders from 30 plus countries trading about 10 million contracts every day.

Prior to joining Eurex Group, I was a derivatives trader and advisor for more than 20 years, pioneering in trading markets which will be 25 years old in 2013. I believe that technology enhances liquidity, safety and integrity, which form part of our mission. Our aim is to provide these advances to a broader and qualified investor base.

Ian Hamilton
IDS Group/Scotstone Investments

My name Ian Hamilton. I am representing two companies here. One is the IDS Group, which is becoming a global fund administration company focusing on alternative investments. I am also Chairman of a company called Scotstone Investments which provides incubator platforms for startup funds, so smaller, new funds wanting to establish track records. We are doing this via Malta-

and Cayman-based fund vehicles.

Our main office is in Cape Town in South Africa, and we also have an office in Malta. Sometimes people tend to think of Malta as a very small place, which from a physical aspect is of course correct, but what they sometimes do not realize is that a company like ours administers many Maltese funds there, and also administers Cayman funds, Mauritian funds, and other foreign domiciled funds. In fact, if you look at IDS's total asset base, it is most probably larger than Malta domiciled funds!

The other area that I am involved with is the constantly changing regulations throughout the world. I have been involved with regulations in South Africa, in the Middle East, and I was also on the AIMA Board in London, and I am also very interested in what is happening on the regulatory front in Switzerland.



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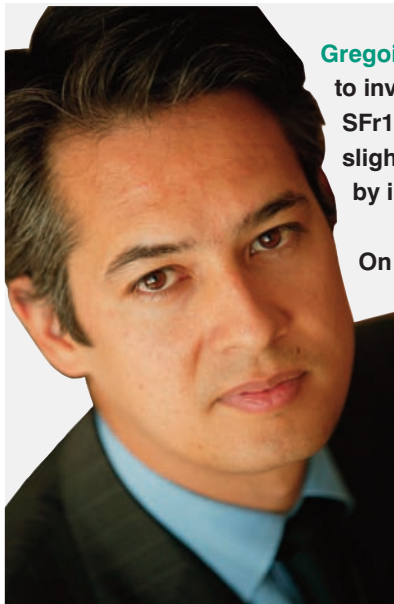
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Gregoire, you started to explain to us your portfolio at the CERN Pension Fund. Can you give us a few more details on how you use alternatives as a pension fund, and maybe also share with some of the trends and developments on how your peers here in Switzerland and maybe globally, use alternatives?



Gregoire Haenni: At the end of 2010, the governing board of the CERN Pension Fund decided to invest in alternative investments via direct investments. We started with a portfolio of a SFr100 million and the investment committee was pleased with the performance which was slightly up in 2011, so they decided to increase the allocation – a decision also supported by independent analysis by the risk consultant.

On a global scale we see a lot of inflows into alternative investment funds, but it mainly comes from US institutional investors. Some flows may come from Europe, as well as Switzerland. However, there are institutional investors who still tend to be very shy when it comes to investing into alternative investment strategies. The reasons for that are first of all, liquidity issues and probably a certain concern about potential headline risks.

When it comes to liquidity, we also experienced that managers are ready to adapt their liquidity terms. We also believe that doing proper due diligence can minimize the headline risks.

Dominique Grandchamp: Among Swiss institutional investors we observe hesitance regarding alternative investments. What is interesting is that if you look at the aggregated asset allocation of our global client base in alternative investments, specifically hedge funds and funds of hedge funds, you would find that we are back at the same level within global portfolios as we were in 2007. That very much surprises Swiss investors when we share that with them.

I believe it is important to communicate this to avoid a kind of herding effect out of hedge funds. We at Mercer are in favor of hedge funds as part of the institutional asset allocation for many of the reasons which I will describe later on.

Still, in many parts of Europe and also in Switzerland, there is nearly no fresh money going into hedge funds – there is at best some reshuffling and restructuring of existing alternatives portfolios. This is true for hedge funds as well as for most of the other alternative asset classes such as private equity.

Still, we see a lot of value in hedge fund strategies. There are, at least, two good reasons for that. First, have in mind that the traditional allocation of pension plans in Europe, specifically in Switzerland is, of course, in bonds.

In the old days you could invest in bonds and this would have allowed you to pay your liabilities. Currently however the Swiss bond index has a yield of roughly 100 basis points while most pension plans in Switzerland have to deliver say 3%, 3.5% or 4% on the liability side. With such an obvious mismatch, bonds are definitely not a healthy investment proposition. I believe that a lot of pension plans are only starting to realize that nowadays it's not very safe to be in bonds.

But also equities have their issues. To many investors, long only equities were really a disappointment over the last decade. Even though the outlook for equities might be positive in the long term, the volatility can have negative short- to mid-term side



effects on the pensions' funding ratios (asset-liabilities). So, when it comes to withstanding volatility, pension plans are in a much different position from family offices, banks or other investor groups. This is why alternative investments should be considered to complement the traditional asset mix, both as performance contributor and also to help reducing the portfolio volatility.

Furthermore, in my view, the idea that pension plans are very long term investors is a simplistic view of the reality, because at the end of the day pensions are in an annual mark-to-market business, just like most hedge funds are in a monthly mark-to-market business. Pensions need to calculate their funding ratio at the end of the fiscal year, and specifically in Switzerland, when the ratio is below a certain threshold, measures have to be taken to cover the gap. Also for that purpose we believe hedge funds are particularly attractive, because they reduce the risk of underfunding given their "absolute return" nature.

Sometimes the question is discussed in the institutional world, how to position hedge funds. Are they an alpha generator or a smart beta generator? For us, this discussion is still open. We believe there is some alpha generation on the hedge funds side, but also some capture of alternative beta and risk premiums. We believe both features make them attractive. We also try to position hedge funds as an extension of traditional, benchmarked asset classes rather than as a separated allocation.

Juan Martini

As a derivatives exchange, with the aim of providing liquidity and transparency, we cover only part of the financial markets and assets base. However, we advise a constantly growing number of institutional clients.

Particularly since 2008 a lot of institutional investors are faced with dropped earnings and returns. Amongst them pension funds and especially public plans became underfunded. The more you are underfunded, the more you need growth. But when you reached a floor level, where only immunization takes place, you find yourself in a position where you cannot afford to raise your risk appetite. At least, you have to be more strategic and cost efficient. When being more strategic, investors start to change their approach towards hedge funds.



Juan Martini: Before the 2008 crisis, Swiss institutions usually went through hedge fund of funds to perform alternative investments which encompassed all outsourced non-traditional investments. After the crisis, more single hedge funds with flagship funds emerged here around the lake of Geneva, reflecting the fact that there was a shift from fund of hedge funds to single hedge funds.

Anyway, investors have become more critical, cost sensitive and responsible, especially about alternative investments. Increasing regulatory burden as well as flattening returns perspective will increase this challenge for the hedge funds industry going forward.

Ian Hamilton: The South African market may already be there where many of the other international hedge fund markets are going - 70% of the South African hedge fund investors are institutional investors. When the industry started there about 10 years ago it was embraced by local institutions. Then 2008 came which of course was a watershed for everyone, but at that time pension funds realized that the allocation they had to the alternative space actually paid off when the rest of the markets were falling.

In order to attract and keep the institutional investor, our local hedge funds had to make sure their house was in order in regards to operations, transparency etc. When I look at the industry globally, all these things have to happen as well to keep the institutional investor happy and rebuild the confidence. I believe we will see this industry continue to grow



Who we are and what we do?

The IDS Group is an independent fund administration group which was founded in 2002. We specialize in providing back office services to alternative asset managers including hedge funds, funds of hedge funds, private equity and property funds. We are the largest fund administrator in Africa with assets under administration of approximately \$6bn and international offices in London, Malta and Mauritius. Our clients trade all investment strategies and we pride ourselves on providing a tailored solution to meet their differing requirements.

What sets us apart?

Understanding your business is our business. Our clients vary in terms of size, location and complexity but we treat every client as an important client. One size does not fit all. Our experienced team works with our clients to ensure complete understanding of their requirements and provide detailed and bespoke solutions as well as ongoing advice, assistance and support. We continually review our processes and integrated range of products and services to ensure we maintain the high service levels that our clients expect from IDS.

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globally, but some aspects of our industry, some of the myths and mysteries around hedge funds have to be dispelled in quite a public way. Once this is done, together with a convincing performance, then what's called alternative investments have a good chance of becoming almost a mainstream type of investment.



Charles-Henry Monchau: What we find interesting is that no matter if the institutional client is based in the US, the UK, Switzerland or from the emerging world, sentiment on equities is negative. As Dominique has mentioned, clients want to avoid drawdowns and lower the volatility of their portfolio. The trend has been very clear in the US with reports showing that the endowment and pension funds allocation to equities has been going down every year since 2002.

While U.S institutional investors have been switching some of their equities allocation to alternatives (hedge funds and illiquid), investors outside the US are reluctant to allocate to hedge funds or illiquid assets. Rather, they have been allocating into multi-asset absolute return funds. Interestingly, if you look at the UK net flows by institutions over the last few years, this type of very liquid multi-asset absolute return funds has been one of the most successful in terms of new assets raised. Today, asset managers have to be flexible and very innovative to satisfy the clients' need for liquid absolute return and de-correlated investment solutions.

Henrik de Koning: We have observed a shift from the traditional hedge fund investment from pension funds, which generally took the form of funds of hedge funds, into other alternatives. At the moment, I found that it is not that much the single manager hedge fund or even the UCITS hedge fund that is capturing the attention of the investor, but rather the private equity funds, infrastructure funds, or real estate funds.

When it comes to hedge funds, there is a lot of thinking and concerns about illiquidity, fees and transparency.

We engage in a lot of conversations with institutional investors around these topics, which include managed accounts, ETFs and regulated versions of hedge funds, and in the end, many investors don't pull the trigger to invest.

Discussions typically start around a manager, and we found that with more disclosure and transparency, the confidence sometimes returns and assets end up being actually allocated to the traditional Cayman hedge fund, rather than into the regulated onshore or managed account format.



Where we are now is probably not the end game. It is, however, interesting to note that all these considerations about alternative investments are being looked at, but not necessarily taken up in the current form.

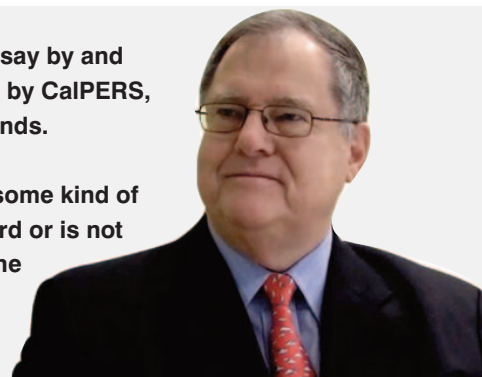


Jean Keller: We are still a rather small firm, and when I joined August 2011, we felt that there was no point targeting pension funds, particularly not the Swiss pension funds. We just thought they were not the right place for us to look for assets as we were far too small to meet their minimum requirements.

But, what happened next is that two of our products got in fact seeded by Swiss pension funds, and about 50% of our sales and marketing efforts are directed to the pension funds. Despite their reputation of being quite shy and a bit timid with regards to new projects or with hedge funds, it was an enormous surprise for us to find out that they were the most willing and keen to listen to a hedge fund start-up like us, and also to act and invest.

Joe Taussig: Sure there are some pensions that will think out of the box, but I'd say by and large, the vast majority of them will not. 47 Degrees North in Zurich was seeded by CalPERS, but there are not a lot of platforms around that have been seeded by pension funds.

The usual issues are size and track record - most pension funds seem to have some kind of criteria that they will not look at any manager that has not had a three year record or is not of a certain size. I think this is unfortunate and it also leads to a crowding into the bigger and more established funds, which in my opinion is a recipe to underperform.



There have been enough studies in the industry that younger, newer managers tend to outperform. They have more ideas than capital, so they have to perform triage on the ideas and you get to invest money that is allocated to the best ideas, whereas if you have more capital than ideas, you are bound to have diminishing returns.

Matthias Knab

Let's look at product innovation and other aspects where you see the industry changing?

Jean Keller: I am in two minds about innovation. To me, there are two sides to innovation. Very often, innovation has been an excuse to try to raise client assets and was not grounded in true investment rationale. This is one of the areas where I hope the financial industry will change. I think trying to make products because they sell or because they are trendy is the wrong thing to do.

Innovation is only good when it actually answers a long-term and durable client need. There have been many examples of sector funds just launched because that sector of the market is going up, and there have been many disasters, for example in the natural resource space, where too much capacity was created and not enough sustainability as far as repeatable returns. There are many other examples like these.

At Argos, our take is that we are a specialist firm and that we try to bring true innovative long term solutions to our clients. For example, we have recently launched a real assets fund. We will invest this fund's assets in the liquid instruments of the real estate, infrastructure, forest, agricultural land, and precious metal sectors. We launched the fund about six months ago and we are starting to raise quite a lot of interest from pension funds precisely for the reason Dominique, has mentioned: the pension funds see the next disaster coming in the bond market and they are very, very keen to hear a story where you can offer them alternative sources of yield and performance.

In that sense, we believe we are not offering just a trendy fad, but that we are actually using the financial markets to create a solution to a long-term problem to pension funds, namely the lack of yield and the vulnerability of pension funds to inflation.

I am a strong believer that investing in assets that are backed by cash flows, particularly cash flows that are more or less independent from economic cycles, will be an interesting proposition for pension funds going forward.



Gregoire Haenni

I fully agree with Jean. Pension funds have a lot of issues and challenges and they really need solutions rather than products.

Gregoire Haenni: I just want to give you more information about the asymmetric return solutions that we have implemented at CERN. Remember the pyramid - we have a bucket that is composed of index oriented positions and an alpha bucket.

We cannot rely a 100% on the indices or indexed strategies, nor can we grow the alternative bucket up to a 100%, so we have to do something that is in-between. However, just for your information, The Institute for Advanced Studies has 100% invested in alternative investments and they have a Sharpe of five. But again, our idea was to blend the two poles, the traditional as well as the alternative world. We wanted to increase the robustness, as well as improve the downside protection of the overall portfolio. In order to achieve those objectives, we asked alternative managers to manage our traditional strategies. We benefit from their sophisticated risk management, as well as ability to generate alpha. The liquidity terms are improved, while the fees are negotiated on the downside.

In addition to that, the managers are asked to implement an ethical filter (no gaming, alcohol, weapons and tobacco) and donate a percentage of their benefits to charity organizations.

We have two main solutions. For the first one, we asked a fixed income specialist to execute a tailor-made strategy. For example, in a fixed income longonly strategy, we asked the manager to protect his portfolio against three different threats or risks: first, a 2008 environment, the second a 2009 environment, and the third an inflationary environment. It is important for us that the manager has both top down and bottom up skills.

This is our first solution approach. Our second solution is to replicate and adapt the initial strategy, the alternative strategy, towards a traditional one. For example, a manager replicates exactly the same portfolio, but his short book is simplified by an index short, while we keep the exact net exposure. We reduce the fees and increase the liquidity of the fund, and so it is not a 130 solution, it is not a carve-out of the long book, but an exact replication of the initial strategy.

In addition to that, we ask the manager to implement an ethical filter. No gaming, no weapons and so on. And lastly we ask the manager to donate part of their benefits to charity organizations. These are the three levels of diversification that we have in the portfolio, a 100% exposure to beta, an alpha generation bucket, and the bucket that we call asymmetric return strategies. We have implemented these solutions last year, and they performed extremely well.



Matthias Knab

When you select those external managers, what is your procedure? Do you do an RFP on your own or do you work with consultants? And what criteria must the external managers meet to work with you?

Gregoire Haenni

We do not work with consultants, we select our managers ourselves.

The main criterion is the ability of the manager to really mix top down and bottom up. This is really key for us, because the manager will have to adapt the strategy dynamically and protect the downside. Our main objective is to capture only 50% of the downside, but two-thirds of the upside.

Ian Hamilton

We discussed before the demand for liquidity, which I can understand when we look at 2008 where so many of the investors were either funds of funds or individuals.



Ian Hamilton: From my own experience I found that the institutional investor is a lot more stable investor, and it would be interesting to hear your comments on that. The institutional investor takes a longer time to make his decision before he actually makes an alternative investment, and he is not going to jump out at the first headline.

Jean Keller: This is a very interesting question. I would like to give you two answers. First, when we look at real assets, which is one of the four areas in which we are active, there is a distortion in the market where the actual closed fund, the long-term illiquid fund, tend to perform less well than their liquid counterparts. This is in spite of the fact that the liquid version usually trades at a discount to its NAV. The only rational economic explanation I can give is that there has been a crowding-in in the closed end, the illiquid part of the market, together with an abandonment of the liquid side.

We also found that this is not a short-term kind of 2008 phenomenon. If you look, for example at REITs, a strong piece of research produced by a firm called Cohen & Steers compared investments in a REIT versus a closed, longterm or 10year life real estate fund of the same manager. Despite the discount and the volatility of the REIT, you will have done far better investing in the liquid REITs version.

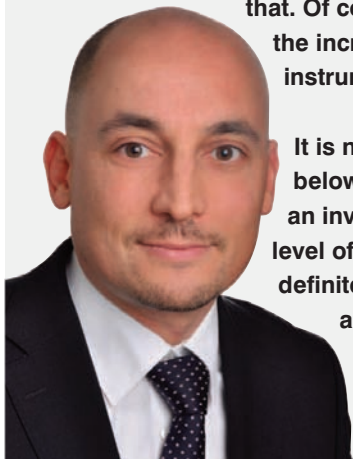
I believe there is a behavioral bias in the way people look at real assets. Indeed, because illiquid funds are less volatile, they have been preferred to liquid versions. But this means that liquid is actually better than illiquid. Now, if you believe in economic theory, this should be arbitrated away over time. However, this has not happened, most probably because in the case of the real estate sector for example, the REITs -- the liquid version -- actually represents a truer form of permanent capital. Indeed because they do not have an end in themselves and they are traded daily in the stock market. The discount is a reflection of the liquidity preference.

Another important point about the investment horizon of pension funds is that liquidity or the lack thereof can have an impact on how the governance of the clients' funds. Take 2008 as an example: as hedge fund managers started to gate their funds or created side-pockets, most investors -- both short term and long term focused -- totally lost control over their assets. Whereas everyone was ok with the illiquidity of the underlying hedge fund at the time of purchase, when the fund gated or side-pocketed on him, he totally lost the ability to drive his own investment policy.

I do not want to speak on the pension's behalf, but I can share from my previous life where I used to run a fund of fund that did not gate nor side-pocketed, not one pension fund withdrew at that time, because they were still in the driving seats. But, from the moment an investor hears that he cannot redeem or that he has a side pocket, then all the wonderful analysis that Mercer or your own team has done will just fly out of the window, because suddenly you have lost control. It feels like someone jumping out of the car with the steering wheel and you are left in the car alone.



Dominique Grandchamp: The question about the holding periods of institutions, the preference for liquidity and the long term nature of pension plans is a very interesting one. In fact, our research suggests that the holding period of institutional investors is actually disappointingly short. It is shortening year by year and there are many reasons for that. Of course, the current volatile and challenging market environment is one, but the other one is the increasing availability and regulatory necessity to implement reporting and controlling instruments to monitor the investment performance.



It is not uncommon that the holding period of an investment initiated by an institution can be below five years, which arguably is not very long, especially if you think that one needs to hold an investment for a much longer period of time in order in order to be able to crystallize some level of alpha and to reap the underlying economical benefits of the investment. While five years is definitely too short, it is longer than the retail investors' holding period, but definitely not as long as many people think.

Also let me add another major caveat in this discussion about the longterm nature of pension plans and their ability to exploit the illiquidity premium. If you have a young

population in your plan, you can afford longterm illiquid investments, but keep in mind that many pension plans have a significant level of pensioner liabilities embedded which exhibit negative cash flows. This limits the ability of these plans to hold a large portion of illiquid assets as you need liquidity along the way to honor the pension payments.

Juan Martini: With domestic interest rates of nearly zero, investors are quite challenged when looking for a liquid investment that still performs. Due to scarcity and illiquidity, booming real assets – like real estate – may not be the solution for everything. Remember that in 2008 we very quickly lost \$7trn in fixed assets in real estate in America. The other issue was that most asset classes were correlating up to 80%, even those that were not susceptible to do so. Diversification remains a growing concern.

What people will still need are return enhancers and solutions to get diversification that will work, even when things develop differently than expected. For example, ETFs show an interesting investment trend. In the beginning, people did not invest in ETFs and banks were very reluctant to sell them, because profit margins were lower compared to structured products. Nowadays, these types of investments encounter some kind of market saturation.

On the other hand, median asset allocation is far away from efficiency and promising returns. As long as no inflation or deflation is measured or even forecasted, it seems to be wise to hold a lot of assets in cash. But in the long run, taking no risk may not be rewarded. New trends or investment opportunities need to appear to motivate investors to come back to the markets.



Hence, it is very important to get innovation and at the right time. Trends change very quickly. For example, the innovation that happened in structured products was exactly what people wanted at that time. It was a well-designed investment package, however, counterparty and default risks were not correctly perceived as we experienced at a later stage.

Eurex Groups' market contribution is to provide the best trading and clearing architecture at the lowest cost possible. As mentioned earlier we accumulated experience of electronic trading markets for about 25 years and will use our knowledge and accomplishments to remain innovative and future oriented for our customers.

Charles-Henry Monchau: I am going to talk about innovation not necessarily for alternative investments but also applied to more traditional investments like fixed income.

Most managers investing in fixed income remain very focused on their benchmark. The way that fixed income benchmarks are built provides long-term, active investors with a great opportunity. Indeed, if you take the example of government bonds' benchmark, the higher the indebtedness of a country, the more that country issues bonds, the higher will be the weighting of the country in the benchmark. It is thus no surprise to see countries such as the US, Japan, France, Germany, etc. with the highest weights in the benchmark. Fund managers, because they don't want to deviate too much from the benchmark, might slightly underweight some of these countries but will remain most of the time heavily invested in those countries. For us, this doesn't make sense. Fixed income investing is about minimizing the risk of not being paid back and earning a yield to get compensated for this risk.



We thus adopted another approach which is called "Wealthy Nations". The goal here is to allocate to bond issuers from countries with the best net foreign asset ratios. This approach developed by the IMF enabled us to avoid some of the big "accidents" of the last few years by staying ahead of rating agencies decisions. It also allows us to offer a superior risk/reward fixed income solution to our clients. Indeed, by investing into issuers from Hong Kong, Singapore, Middle East countries,

Norway, Switzerland, etc. we end up with a portfolio with a yield to maturity of almost 5% at an average rating of BAA. This approach has been doing very well, offers good liquidity and still provides our investors a very decent yield. We thus believe that there is still room to innovate in the traditional asset classes.

Henrik de Koning

What strikes me is that we keep on talking about relative performances. I found that the vast majority of the investors I talk to are actually looking for ways to move away from relative performance; they want to get access to “real” and “absolute” performance.

For the future, I see a suite of new products where a new breed of managers is really banking on concepts that are completely different in a sense that they put the risk of monetization forward in dealing with the current environment of QE1, QE2, ... QE-infinity, which caused the absence of scarcity of capital.

We are at a point in time where the value and the perception of capital is changing, and, I agree with Jean, that people are increasingly looking at cash flows or at real assets, and at innovation in that space.

Ian Hamilton: One of the things we see happening in the market that we think is a substantial threat to the alternative investment space going forward is the difficulty of new fund managers to start. Our firm is constantly looking to develop bespoke platforms and opportunities that are plug and play and help them set up and grow, so that the smaller hedge fund managers of today have an opportunity to grow into large ones over the next five to 10 years. They should not be denied that opportunity.



Jean Keller: You are right. When we started out, we immediately took the high route to get regulated and to have UCITS funds. With the various developments in both the European and the Swiss context – note that I am not even mentioning the U.S. here – the cost of regulation has become totally unbearable. I reckon the regulatory costs to start a new business that is regulated, offers UCITS funds and is trading, will probably be Sfr2mn. This is very, very expensive.

I believe this already results in a huge loss of creativity for the whole industry. It will affect investors as well because this is an industry that thrived on creativity. In the very early 90s, hedge funds were created because their founders were people who needed to be on their own to fully express their investment talent.

You could not have told someone such as any of these early players “go and join the platform” like the industry is trying to do currently. For sure, today creative guys can join a platform, they can join another hedge fund group or they can be given a book to manage at some other place, but that won't be the same as setting up on your own. I don't believe that someone can create his own investment culture inside another investment culture. Of course, there are a few successful platforms like Millennium in New York or Brevan Howard who are very open and do attract some very talented managers. But nonetheless these examples are rather rare. Most large platforms do involve some taming of your own investment thinking.

In my view, the industry will suffer from this stifling of creativity, and we should really think about where we are heading here. I am not saying the regulator is the only party responsible for this. Other culprits include all the compliance people who make rules like “we need x years of track record, we need a minimum of \$100mn”, and all that.

I do think it is really important that we ask ourselves if we still can create the next Brevan Howard, SAC Capital or whoever in the current regulatory environment of today? I don't think we can today; we've gone a step too far.



Joe Taussig: We talked about innovation and plug and play platforms – we started one ourselves that also helps to address the issues Jean is complaining about. As I mentioned, we partner with hedge fund managers and create reinsurance companies and banks, where the managers get to manage all of the investable assets. The three most visible of these types of reinsurers are those of Einhorn, Loeb, and Steve Cohen. The amount of commitment they made in terms of capital was north of \$50mn million each, the startup cost were in the millions of dollars, and the compensation commitments they had with teams were substantial.

Using Jean's Sfr2m benchmark, the irony is you can start a reinsurance company and create a regulated vehicle for a manager to deliver his skills with a virtual certainty to outperform his flagship fund with the same strategy for \$100,000 in setup costs. We've just launched a platform that allows managers to do that.

We are not advocating the hedge fund manager should go out of the fund business, although Buffett is the original prototype of this. He ran a hedge fund for 13 years and quit cold turkey to go into reinsurance and banking. We have analyzed his business and AQR recently contributed to a paper that was cited in The Economist and came to the same conclusions. We believe that about 90% of Buffett's alpha comes from the structure, not his actual stockpicking.



For our platform, we put the entire insurance team together, and it's a shared resource for all managers on which each manager can start his own reinsurance company. This is without the high start-up costs of the early movers, and again, the benefits are that the managers can gather large amounts of assets, also from investors who otherwise would not invest into hedge funds, and the vehicle is pretty much destined to outperform.



Joe Taussig: I will come back to the permanent capital aspect in a minute. But before that I would like to pose a question to this group: what kind of artist would Picasso have been if he had no paints, no brushes, and no canvas?

Jean Keller: Joe, in my view the point is rather that he does have the canvas, the brush, and the paint, but you're asking him to wear a suit when he's working and demand he comes into a studio where he doesn't like the light. And then you are telling him that he can only paint in this color and that model. That is at least the type of problem I am concerned about.



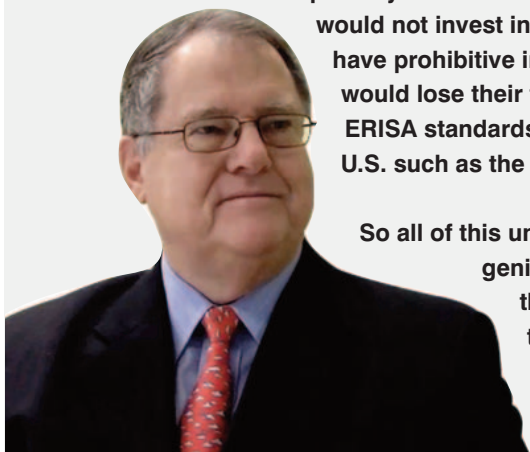
Let me also add that I believe the regulator is really trying hard to do this right, and that is encouraging. Things tend to get complicated when the politicians want to get involved and try to control some of the past behavior with the wrong tools.

My point is that it used to be an industry where two people, you and I, could have decided this afternoon to set up a firm, working from home or in a garage, and a prime broker would give us trading access, and that was all we needed to start out. And if we were good at it, we'd had a good chance we'd succeed. But today, even a Picasso may be challenged to start out his career by putting up Sfr2mn first for regulations.

Joe Taussig: You are right, Picasso without a brush, paint and canvas would still be a great artist, but no one would have known. The analogy for young managers is that if you don't have assets, you may be the greatest asset manager ever, but without assets, nobody knows.

What we've done is created a vehicle that raises assets prodigiously. If you read Buffett's letters going all the way back to the Genesis, he talks about float, and how it works, etcetera. It's essentially leverage with a negative cost, and it comes to you without any regard as to how you run your money. Our approach is to create this platform that is able to bring in assets from investors who would not otherwise invest in your funds. Secondly, those assets allow you to generate insurance premiums if you would that have nothing to do with your strategy. I will give you examples.

When Third Point was launched, \$390mn of the startup capital came from private equity funds. They would never invest in Dan's fund, but they would invest in a reinsurance company where he ran the money. Greenlight Capital Re. is publicly-traded. Some of the shareholders are mutual funds and individuals who normally would not invest in a hedge fund, as well as pensions and endowments that may otherwise have prohibitive investment guidelines or they can't go into domestic funds because they would lose their tax exemption. And if there is an ERISA plan, the fund must conform to ERISA standards if more than 25% of assets are from pensions (even those not from the U.S. such as the British, Dutch, and Swiss pensions).



So all of this universe of investors who might like to have exposure to the Picasso-like genius of David Einhorn, Dan Loeb, or Steven Cohen can now access it where they were not able to access it before. The insurance industry generates trillions of dollars of premiums and can also join even though it's not getting any of the investment upside. It's buying a different product, but it's providing essentially what AQR says when they call it Buffett's Alpha.

Ian Hamilton

I call the alternative industry the "4×4 industry" because all my experience I have found in the past, it takes four times as long to get the act together, it costs four times what they were expecting. They raise one quarter of the money, and they all want to drive a 4×4.

Matthias Knab

Today in our discussion we talked about risk and how to protect a portfolio against the unforeseen. Is tail risk and tail-risk protection something you are looking at?

Gregoire Haenni

I think we are in a very interesting macro environment, and I believe that tail-risk is actually on both sides of the distribution. We are in the middle of stimulus programs in developed markets and this could really be a good support for equities. But, on the other hand, most developed markets are facing almost the same situation at the exact same time. The developed economies are in a fiscal tightening mode, and they cannot further ease the monetary conditions.

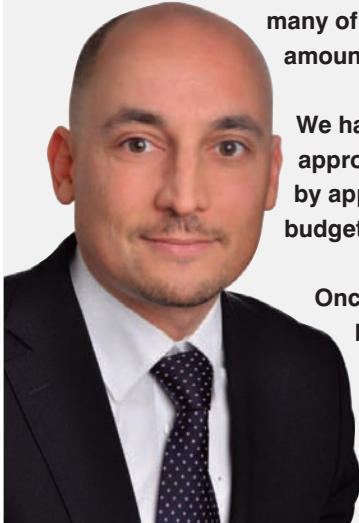
That means if there will be a disappointment in growth figures at the beginning of next year, this is going to disappoint market participants and equity markets can drop a lot. In this interesting situation with risks on both sides of the distribution, what are the strategies that could do well? One strategy that may still behave well, as long as it's well dynamically managed as well as risk managed, is credit.

Gregoire Haenni: Do we have tail-risk protection at the CERN pension fund? Yes, have. We implemented ourselves some mainly derivative-driven insurance strategies. But, we also actively manage the beta of the portfolio.



Dominique Grandchamp: Tail-risk is an interesting topic. We have a list of approved tail-risk managers and overlay programs which we implement with various institutions. However tail-risk programs do not address the current risks of Swiss bonds and Swiss real estate despite the fact that these two asset classes represent a substantial part of the pension plan allocation....

But beyond the concept of hedging extreme risk, there's also the whole concept of managing risk by moving away from traditionally benchmarked approaches through the implementation of benchmark-agnostic risk-budgeting or risk-parity approaches which are often referred to as asymmetric balanced mandates. We definitely see a growing interest for these approaches. Instead of implementing a traditional portfolio rebalancing with tight lower or upper bandwidths, the objective is to actively manage the exposure and the risk allocated to each asset class. As a result many of these approaches can deviate significantly from the benchmarks and even hold large amounts in cash when risk aversion and volatility increase.



We have several pension plan clients who have decided to shift from a traditional benchmarked approach to a more benchmark-agnostic, risk-managed approach. This is implemented either by appointing a dedicated asset manager or by complementing the existing allocation with a risk budget or risk overlay mechanism.

One of the challenges of this implementation we face is the increased level of governance, because although the approach tends to be benchmark agnostic, the pension plan trustees and investment committee members still compare the performance figures generated by these methodologies with the traditional benchmarks. Typically, benchmark-agnostic approaches will lag traditional indices in bull markets but over a full cycle we expect them to exhibit a lower volatility and a higher risk-adjusted performance.

Charles-Henry Monchau: In the old world, investors were long risk assets like credit or equities and were able to balance their portfolio (and reduce their risk) by allocating to long duration government bonds. But nowadays, government bonds do not provide you with the same level of protection. If we take the example of U.S treasuries, a decrease of the 10-year bond yield from 1.5% to 1% will bring investors a 5% price appreciation, which might be far from being sufficient to cover the potential drawdown of risk assets that might occur in such a scenario. It thus means that the allocation to government bonds which is needed to “counter-balance” your risky assets is far larger than it used to be. And given the risk of bond yields going higher, this doesn't look like a very attractive proposition.

Asset allocators are thus facing a dilemma and need to find other solutions to lower the overall risk of their portfolios. As we have seen in the recent past, tail-risk hedging by using long volatility instruments can be very costly. For instance, many investors got burned at the start of this year by going long front-end volatility futures. With the VIX futures curve trading in contango 75% of the time, these investors suffered from the cost of the roll. So any time we think about tail-risk hedging, we not only have to think about the cost, but also the downside it could bring to a portfolio.



My last point on hedging strategy is that we usually try to hedge against some known risk, but there are also the unknown risks, which of course are very difficult to predict.

For instance, risk might come not from just the asset class per se but also from the instruments. For example, a lot of money has been flowing into ETFs. What will happen if we have a large-scale incident with ETFs? These are a couple of points that make us think at the moment. We do need to be very innovative to deal with these issues, because there is no easy answer or an easy way to deal with them.

Juan Martini: We are talking about risk here. When I look at my first two private investments, silver metal and Swiss Airlines Stocks, I sold silver before Hunt's debacle and sold Swissair with a small profit but a long time before Swissair's grounding. As of today, keeping such investments would have been disastrous. I wouldn't have become rich had I kept those assets. What I mean is, investors should not be stuck in investment styles like long- or short-only, unless they have a rational reason to do so. Return forecasts may appear realistic but as long as there is a behavioral gap between returns and risk there will be shortcomings and bad surprises, for instance through systemic shocks. The only remedy is to stress risk measures.



As a derivatives exchange and clearing house operator, we constantly need to reshape our measures of risk. The difference to former risk models is that we will now disclose our methodology to help investors reshaping their own portfolio risk at an appropriate confidence level.

Segregation will also remain a concern. There is a clear demand towards new forms of segregation to avoid disruption of liquidity and business by market participant's failure. This discussion is not new. Baring in 1995 was a typical case of collapse due to excessive derivatives speculation and a lack of control mechanisms. The good thing is that Baring already held some segregated cash accounts for its customers, ING purchased the failing bank and everything went back to normality. The bad thing is that no full segregation was ever made available, until Eurex Clearing introduced its individual clearing model after Lehman's debacle.

The aim of ESMA's EMIR article 39, where a clearing member should offer segregation to customers and inform them about costs and levels of protection, should be addressed. We believe that we can substantially contribute to this process by implementing our Client Asset Protection program, thus helping customers to reduce counterparty risk mitigation with costs in line with return expectations.

Ian Hamilton

Many years ago I was trying to define what is risk for the warnings on products for the hedge fund industry. I spent a whole night working out something that looked like an 80-sided Rubik's Cube. There is just no way we can deal with all risks. There are risks that are totally unforeseen, the Black Swan type of events. Also, keep in mind that the more we remove the risk from the investments, the more it is going to cost and the more returns are going to decline. The investor should always have choices when it comes to defining a risk-reward balance. He should be empowered to make that decision, and the much discussed transparency will help him here.

Matthias Knab

Geneva is the capital of Swiss private banking. Charles, can you give us an update on the developments and trends you see in private banking?

Charles-Henry Monchau: We are still in a tough environment for Europe, so in the years to come it is very difficult to see inflows from this region. There is much more opportunity with Latin America, Asia and emerging markets clients.

Still, private banking will probably not be able to continue the same growth of assets as the industry enjoyed here in Switzerland over the last 20 or 25 years. How we as a private bank deal with that deceleration of the growth in assets is to offset that by potentially offering better and more innovative solutions to our clients.

If you look at Switzerland for example, a very large percentage of our clients are not invested and sit in cash. There is thus a fantastic opportunity to provide them with investment solutions and a clear indication that at some point in the future, asset management will have a big role to play. Generally, if we as private banks are able to come up with interesting solutions for



clients, then we should have a way to offset some of the heavy headwinds the industry is facing at the moment.

We talked before on the increased cost of regulations for asset managers, and the trend here is the same for private banks as well. We indeed have to deal with more regulation and dedicate more resources to that. But on the other hand, that is also an opportunity for an established firm like ours, as it establishes higher barriers to entry in the industry and provides opportunity for consolidation. Going forward, the larger private banks might be able to markedly grow their market share, but again, my key point is that asset management will be playing a very important role to play for Swiss private banking in the years to come.

Henrik de Koning

Gregoire said earlier that the tail- risk is at both ends. It basically means that we have no clue in which direction things are going. People have many theories about where we are going with quantitative easing and the sovereign debt problem. It seems like the less visibility people have, the more they tend to focus on the short term, or put differently, the less they are willing to commit for the longer term, and Charles' observation about the cash balances of his clients speaks to the same point.

As an industry, we are in a Catch-22. The institutional as well as the private banking clients do have significant cash balances, but a lot of that cash isn't moving, they have no incentive to put it anywhere either because of the perceived lack of opportunity, or because of the lack of understanding the risk. As Juan said, we may have to work on new and accurate risk measures.

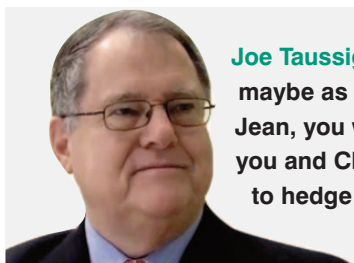
Ian Hamilton

Everyone is wondering where the market will be going. That reminds me of a statement of a Swiss bank I read recently, and I won't name which bank it was. They said the market's situation is a bit like a strapless bra. Half of the people are wondering how it's being kept up and the other half are standing there with both hands waiting to grab the opportunity. Lol!

Juan Martini

As you know, a number of private banks, also here in Geneva, still have a hybrid firm structure with an investment and private bank, where the partners are fully liable. So, for the last 200 years or so, the classic private bank has a different approach to risk than the investment bank, even in the asset management business.

However, both parts of the business remain crucial. And possibly going forward, private customers will need to get less risk averse while asset managers may have to become more transparent and focused on risk reduction. Or, as asset managers become increasingly cost-sensitive, they will at least concentrate on reducing the cost of risk.



Joe Taussig: Historically before the crisis, at least 20% of all assets in the hedge fund business and maybe as much as 30% came out of Switzerland. My sense is today there is probably less than 10%. Jean, you were CEO of the fund of funds unit of Swiss private bank Syz before, and I wonder what you and Charles can share with us about the share Switzerland has when it comes to allocated assets to hedge funds globally?

Jean Keller: Depending on which bank you are looking at, the allocation to hedge funds pre-crises will have varied between 15% and 25%. Only this year they have probably reduced dramatically, and a lot of reduction was more driven by the clients than by the banks. Today, a bank may still allocate between 5 and 10% to hedge funds.



Joe Taussig

So what do you think is the percentage of the total hedge fund assets globally that is coming from or being allocated through Switzerland? Also, looking the level of the individual banks, haven't their assets in total gone down as well?

Jean Keller

I don't think that Swiss private banks suffered a reduction of their asset base, in fact, I think they have been very good at raising assets from new clients. The problem is that those assets don't return the same in terms of fees. I am not talking about performance, I am talking about fees.

While a lot of other people at the moment are rather gloomy, Swiss private banking in general has been incredibly successful this year.

Charles-Henry Monchau: Swiss private banks' interest for hedge funds has certainly gone down since the 2008 crisis. With one out of five financial institutions in Geneva having some exposure to Madoff, it is no surprise to see some reluctance by private clients to get exposure again into hedge funds.

Many private clients were also hit by fund of funds gating, lengthening redemption period or creating side pockets. This is a major difference with the U.S. where there was a better understanding about the liquidity risk, and in fact many fund of funds and fund of fund investors were favoring quarterly or even higher liquidity at the fund of hedge funds level. That is why in the U.S. a lot of investors came back into hedge funds already in 2009, whereas in Europe and especially in Switzerland there is still a kind of hangover post-2008. When you mention the word "hedge fund" to private clients, many of them think about liquidity and disappointment. In my view, that is the main reason for the reduction of hedge fund assets out of Switzerland.



Henrik de Koning: UBS is still active in the fund of hedge funds space, albeit within a different division than the one I work for. In fact, that group is still very active allocating to hedge funds, which is probably a function of the nature or the quality of the clients they serve.

When it comes to the investment bank, and the way we have been offering hedge fund investments to our investors through packaged solutions such as delta-one certificates, leveraged certificates, and capital protected products, it is undeniable that there has been a slow down.

Such products, however, are still up there and deemed attractive by some clients. There is less emphasis on capital protection, which might be seen as a paradox given the fact that people have lost money on alternatives during the crisis, but probably some other factors make these products less interesting.

We have less of a private and more an institutional client base. The solutions we are working on are more geared towards providing increased transparency, more risk control or a superior corporate governance. These are all features that have an appeal for the institutional investor rather than for the private individuals. I would concur with the view that there is still this hangover which makes it difficult for private individuals to get involved again in the alternative sector.



Joe Taussig

Do you think the assets are off by 50%?

Henrik de Koning: That's a good question, I actually had this conversation with Alexander Ineichen about three months ago. I believe that some private banks could have lost even 60-70% of their AUM in hedge fund strategies. Others, however, have been very strong and kept literally everything; some Geneva-based fund of hedge funds have actually even be able to grow their assets under management.



Joe Taussig: I am really interested in understanding this shift in global hedge fund allocations after the 2008 crisis. Even if some private banks or fund of funds could maintain or grow their asset base, when it comes to hedge fund allocations, I believe we're still in a different game. American hedge fund managers used to come to market to Switzerland every year. But they are not coming now, they are not making the pilgrimage.



I believe this is a kind of broader, relevant theme for Switzerland. They used to control 20-30% of the global market, and it is probably less than 10% today. The global hedge fund industry came back and the level of global assets are now at pre or even higher than the 2008 levels, also because of the shift towards institutional allocators.

Ian Hamilton

From my perspective as a fund administrator, 2012 so far has been the best year in 10 years in terms of assets coming into the industry.

Juan Martini

That is certainly good news for your clients, but from a comparative perspective, there are real asset bubble risks measurable especially around the Lake of Geneva and other Swiss suburban areas. As long as the local economy despite an expensive domestic currency is doing well, interest rates are low and real estate prices are growing 5-7% p.a. why should investors shift to assets deemed to be more risky? Especially retiring baby boomers profit from this situation and remaining investments stay income-oriented.

However, with the change of generations, this will be jeopardized in the future. Even if the marginal tax rate can be considered low compared to other countries, the potential abolition of lump-sum or flat tax rates in Switzerland, may lead investors, like hedge funds, to reconsider their position in Switzerland. Especially, because this development affects their own financial situation, already dampened by increasing regulatory burden. However, as long as Switzerland belongs to the most stable countries of the world with aboveaverage competitiveness, investors will be ready to pay the price for the sake of financial stability.

Matthias Knab

Gregoire, coming back to the world of pensions, what changes or issues do you see in the markets?

Gregoire Haenni: There are of course innovations like the UCITS platforms and so on, but what I personally see as very refreshing is managers who come up with innovative solutions, and I am happy we talked about that in depth here. What is also very positive is that we see a lot of managers changing and adapting to investors' needs. I am very optimistic going forward.



Another development I see in the institutional world is that the number of institutions that have the means to attract in-house specialists is increasing. We have seen this not only with us at CERN but also Nestlé, Novartis, etc. - all those big pension funds are now attracting talent and build their own portfolios tailor made to their needs.

Matthias Knab

In general, what are some of the opportunities you are looking at right now? Is anyone launching new products?

Ian Hamilton: I would like to bring up again the theme of risk and threats, and we have already covered this quite a bit, including the embedded risks that can come with regulation and legislation. However, my take here is that in the end, this will actually also result in opportunities. Once we have regulatory frameworks in place where we can compare apples with apples, different hedge funds and their strategies etcetera in a far more transparent environment, we will



see more institutional investors coming into the alternative investment space

The total amount of investment assets globally is something like \$300trn. The hedge fund industry is less than 1% of that. One of the reasons why we're only 1% is that the hedge fund industry has not enjoyed good press, there were scandals etc. In my view, once we have a better legislation, transparency and controls, we will dispel a lot of those myths surrounding the industry. In 10 years' time, I believe we will look back and say "yes, we had issues and threats like regulations which made our lives a lot more difficult, but once we were through that we enjoyed huge opportunities."

Jean Keller: I am in favor of regulation. There is a lot of evidence that more regulated places have a better, a more vibrant industry. We just need to have the correct kind of regulation. Unfortunately in some areas of the world, the regulatory framework is now being changed by politicians who view this as a way to extract a kind of retribution. I think that's wrong; we have to be very careful.

I have always been a strong admirer of the U.S. regulatory framework, which, if you look at it, actually hasn't changed that much for asset management since it has been in place. The U.S. is still working with the Investment Adviser Act of 1940. Of course, it would be retarded to say that hasn't evolved, but effectively this is still the most successful regulatory framework in the world when it comes to asset management. What we Europeans should do as well is to focus on creating a stable and long lasting regulatory environment. Unfortunately, today the regulatory watch within an organization is absolutely ginormous.

To understand the future of our industry, let's look first at the origin of hedge funds. Originally, hedge funds were very little known entities that existed in very specific niches. If you think about the 70s, who at that time knew who was George Soros or Julian Robertson? They also ran their business in a very un-transparent way, for all sort of reasons, one of them being regulation. If you fast-forward 40 years to today, in a certain way there is really very little difference, in fact there is zero difference between EFG and Brevan Howard or Lombard Odier and Millennium. All those firms are regulated by the SEC, by the FSA, or by the FINMA.

As Ian said, everyone is coming towards transparency -- which is a good thing by the way. This also means that the boundaries have disappeared between alternatives and long only. I suggest that people stop looking at investing as alternatives versus mainstream, but rather start to analyze what kind of risk and return fact they are introducing into the portfolio. I believe that in this respects the chips have not yet fallen, but I am absolutely convinced that this is the trend.

My last comment is that the power of brand has become too big. I don't really like to name the large institutions here, but I bet that you cannot give me the name of a single Fidelity or BlackRock fund. Of course, we know the firm, but not their funds. And that is why they are among the largest fund managers in the world, and by the way, they do have very good products. However, my point is that it is all about the branding, and we have to be careful of not creating a regulatory framework that favors brand versus substance.



Charles-Henry Monchau

Coming back to risks and opportunities, too many investors are only looking at threats and risk and don't want to think about all the opportunities in this world. This also applies to companies, sovereign wealth funds, pension funds, etc. which have been accumulating "mountains" of cash over the last few years. What prevents this cash to be invested is lack of visibility and lack of confidence.

From the day onward where we'll have some visibility and some confidence, all this cash will start to get invested again, and that can be a threat as well because it could lead to high inflation. But generally, there will be a lot of opportunities not only for the economy but also for us as asset managers to come up with solutions to invest all of this cash.

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