



Opalesque Round Table Series '13 HONG KONG

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Editor's Note

High net worth investors may offer biggest growth potential for hedge funds today

The last five years have undoubtedly been challenging for the Asian hedge fund industry. In this period we have been through two of the worst years ever seen in the history of hedge funds: 2008 and 2011. While performance has not been great, **hedge funds in Asia have outperformed the Asian equity market**, which is a much overlooked fact. A more structural issue that Asian managers have had to face is that net inflow into the industry has since 2008 come from pension funds and endowments, and these investors are finding it difficult to identify funds in Asia that meet their investment criteria.

Private clients are at the moment generally very underweight hedge funds, not just in Asia but globally. For a medium risk investment portfolio, an institution like Citi Private Bank recommends a 16% allocation to hedge funds. That means there is a large gap between where high net worth investors are allocated to today and where their advisors suggest it should be. The high net worth sector may well offer the biggest growth potential for the hedge fund industry today, in Asia and elsewhere.

The Opalesque 2013 Hong Kong Roundtable took place April 29th at the office of law firm Bingham and sponsored by Bingham McCutchen, Eurex and Taussig Capital, and united the following experts:

1. **Thor Mosen, Director, Citi Private Bank**
2. **Jessica McCarroll, Co-CIO, Silverhorn Advisors**
3. **Carl Wong, Vice President and Head of Credit Research, Samena Capital**
4. **Eric Wong, Director, TCG Family Office**
5. **Andrew Ballingal, Founder and Chief Executive Officer, Ballingal Investment Advisors**
6. **Anne-Marie Godfrey, Partner, Bingham McCutchen**
7. **Markus Georgi, Head of Representative Office, Eurex**

In this transcript, you will read about:

- **Andrew Ballingal on global and Asian investment themes not to miss**
- **What are the four key secular growth themes Asia offers right now?**
- **Why is the turnaround in Japan is for real?**
- **A family office's rather untypical strategy of building out a rather large in-house prop trading operation**
- **Liquid Alternatives in Asia: Relative value strategies**
- **Evolution and opportunities in Asian credit**
- **Eurex to offer access to TAIEX options and futures**
- **Huge opportunities serving 2nd and 3rd tier Chinese institutions**
- **What hedge fund strategies are Citi Private Bank advisors interested in?**
- **Regulatory Update: Why AIFM Directive compliant fund structures will become a brand in themselves? What are some of the additional requirements the Hong Kong SFC has recently introduced?**
- **How are Asian family offices different from Western family offices?**

Enjoy the read!

Matthias Knab
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Cover Photo:

Big Buddha of the Po Lin Monastery of Hong Kong's Lantau Island is the world's largest Buddha statue. Empowered in December 1993, it is made of bronze, 34 metres tall and weighs 250 tons.

Participant Profiles



(LEFT TO RIGHT)

Carl Wong, Andrew Ballingal, Markus Georgi, Eric Wong, Ernst Bünemann (Eurex), Matthias Knab
Matthew Puhar, Thor Monsen, Jessica McCarroll, Anne-Marie Godfrey

Introduction

Andrew Ballingal

Ballingal Investment Advisors

My name is Andrew Ballingal. I am the founder and CIO of Ballingal Investment Advisors, an independent investment firm which has managed long only absolute return and hedge funds in Hong Kong for almost a decade.

We currently run two funds; the BIA Pacific Fund, an equity-focused Pan Asian long/short fund, which has been going nine years, and the BIA Pacific Macro Fund, which has a seven year track record.

Jessica McCarroll

Silverhorn Investment Advisors

My name is Jessica McCarroll. I am CIO of Silverhorn Investment Advisors, an asset management, wealth management and private equity firm, which is based in Hong Kong. I have been in the hedge fund industry in Asia since 1991. Silverhorn was founded three years ago to deliver superior investment returns to sophisticated family and multi-family offices. I look after the asset management part of the group, which is launching the Silverhorn Dynamic Relative Value Fund in June.

Carl Wong

Samena Capital

I am Carl Wong of Samena Capital Hong Kong Limited. Samena Capital was established in 2008 by a group of prominent valuepreneurs from the Subcontinent, Asia, Middle East, and North Africa, collectively known as the SAMENA region. Apart from the geographical coverage, the word "SAMENA" has another meaning. In ancient Buddhist scripts, it also means "collective" and "together". We manifest this notion of togetherness in our investment philosophy by operating through an innovative collective investment model to create a unique value proposition.

Samena Capital currently manages total capital commitments in excess of \$795 million across a range of open and closed-end structures. I am the Head of Credit Research for Samena Capital Hong Kong Limited.

Thor Monsen

Citi Private Bank

My name is Thor Monsen. I am the Head of Hedge Funds for Citi Private Bank in Asia. Citi is the largest wealth manager in Asia with \$210 billion of assets under management. One third of all Asian billionaires are clients of the private bank. We have a global hedge fund team with about 35 people dedicated to research, due diligence and product management of hedge funds for the private bank. I am based here in Hong Kong and my responsibilities are two-fold; one is to research and monitor hedge funds in Asia, and the second is to advise our bankers and clients on their global hedge fund allocations. I have been in the hedge fund research industry for 13 years, half of which were based here in Hong Kong.

Matthew Puhar

Bingham McCutchen

I am Matthew Puhar from Bingham McCutchen Hong Kong. I work with funds of all types, mostly on their investment activities in the region, mostly ex-Japan, because we have a large office in Japan. So it's direct investment work, market arbitrage type situations, and other downstream work for funds.

Anne-Marie Godfrey

Bingham McCutchen

My name is Anne-Marie Godfrey. I head up the fund formation and non-contentious regulatory advice team at Bingham McCutchen Hong Kong. I have been in Hong Kong more than eight years, and have been working in the area of investment funds for more than 12 years.

Markus Georgi

Eurex

My name is Markus Georgi. I represent Eurex in Hong Kong. Eurex is a leading derivatives exchange and we cover global markets. Our Hong Kong office is part of our Asian offices where we service and focus on the Asian region.

Eric Wong

TCG Capital

I am Eric Wong from TCG Capital. We are a multi-family office based in Hong Kong that provides capital mainly via managed accounts to firms trading exchange-listed instruments globally. The partner firms range from market making and proprietary trading firms to CTAs and CPOs.

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Andrew Ballingal: As a house, we are often associated with a negative view of the world. But right now we have a reasonably constructive view of the economic environment, and are probably more bullish than the consensus after the quite significant scaling back of expectations over the last quarter.

Andrew Ballingal

We think the US is on the mend. A great deal of structural adjustment has taken place, and while there is obviously a long process of public finance consolidation ahead, implying sustained fiscal drag, the private sector, having done the “hard yards”, is now in a position to grow again, with the key being a stabilizing labor market and an improving housing market.

The latter is obviously helpful for household confidence, but it is also important for credit; with both conventional and unconventional channels beginning to work again, credit will grow again.

If corporations come to the party and deploy their abundant cash on investment and hiring, we would all be in for a big upside growth surprise!

So we are reasonably constructive about the US, and certainly more constructive than bonds yielding 1.7% imply.

Three years ago we started to question China's secular growth story, this has since become consensus. But by last autumn we felt that the slowdown was well discounted, that the consensus had perhaps become too bearish.

We also thought that the political cycle, a major additional factor in the uncertainty, bottomed with the arrest of Bo Xi Lai in early October last year.

Although macro policy makers got badly behind the curve over the past five years, and was thrown a nasty curve ball by the GFC, we regard them as still pretty effective and reasonably pragmatic.

But it's a tough ask to simultaneously soft land and rebalance an economy that has grown as fast as China's, with the imbalances that have developed over the past few years, in a generally global growth environment.

It won't be without bumps along the way, but nor is it a certain disaster; whatever the longer term outcomes, right now we think people, including those in China having been too bullish for too long, are now too bearish on China.

Andrew Ballingal: We remain highly skeptical about the situation in Europe, with it remaining the main potential wild card over the next year or so

The other major economy worth mentioning is Japan, still the world's third largest, where we are reasonably constructive about growth and very constructive about real assets, more on which later.

What this all suggests to us is that the dollar will remain relatively firm.



We see the yen, although currently very oversold, after a bear market rally, experiencing renewed weakness, moving over the next six to 12 months up to 110, 115, maybe 120.

The Euro is a tough call. If the global economy doesn't fall out of bed, it will probably hold around here, but over time we see a weakening bias against the dollar.

We see bonds generally as very risky at these levels. We and others have been surprised by the recent rally in bonds. But strategically we see bonds as very dangerous; if we are half right about the world, you will lose money in bonds, and if we are more right than that, you will lose a lot of money.

Andrew Ballingal

The one exception that we still think makes sense are Aussie government bonds. They offer high nominal and relatively high real yields, against a backdrop of weakening commodity prices, a softening Aussie economy, and an imminent sharp fall in resource-related investment, the one thing keeping growth at half-way decent levels and the RBA from further easing.

Australian interest rates will fall meaningfully, and this will kick the stool out from under the Aussie dollar; it could be a big drop when it eventually goes.

In terms of commodities, we've got a rather bifurcated view.

Andrew Ballingal: Gold is the topic du jour, and we like it again here, as we think it sells at an unreasonably low premium to total marginal cost of production (around US\$ 1350 – 1400) in a still dangerous world.

We see the recent sharp move down in gold as primarily driven by a confluence of technical factors.

The real risk to gold comes from synchronized stronger global growth, implying higher interest rates, and a higher cost to holding zero-yielding gold, and lower systemic risk, implying a lower requirement to own it.

Against this, at current prices, probably 15 - 20% of global gold production is now uneconomic, and maybe 10% is cash flow negative as well; supply constraints will emerge before too long.



At the same time, the physical market has sprung back to life fairly dramatically, particularly in key demand markets like India and China. Gold is now very much back on the household shopping list.

This could then well prove to be a good strategic entry point for gold; over the next 12 - 18 months we think it can recover the ground it's lost over the past two years, and possibly go onto make new highs.

The rest of the commodities are quite tricky.

Andrew Ballingal

On the one hand, although we do see the secular slowdown in China as a key factor in terms of slower demand growth, it's important to recognize that this is not a decline in demand, just slower growth in demand.

In a number, but not all commodities, this is against a backdrop of quite strong supply responses; this is probably most apparent in oil, aluminium, thermal coal and iron ore.

But it is definitely not the case in uranium, zinc or platinum. Not many new copper mines will be built at current prices.

The fact is that a combination of geology (declining grades, increased strip ratios), geography (costlier infrastructure) and general inflation has led to a sharp rise in production costs for most

commodities over the past decade.

In addition, and very importantly, every single major mining company now has new management.

It's like the oil companies in the Nineties; these people are just not going to build new capacity; they'll get sacked if they even try.

Instead, they are going to cancel expansions, strengthen balance sheets, and give money back to shareholders.

So, just as a \$10 oil price at the end of the Nineties set us up for \$150 10 years later, I am now really concerned that, unless China and a whole swathe of other emerging markets slow by much more than we anticipate, or the developed world lurches back into recession, we will run into real supply disappointments in a whole range of basic materials.

Take uranium; at current spot prices around \$40/lb no-one will commission new uranium mines. With the end of the HEU Program, continued expansion in reactor capacity in China, Korea and much of the rest of the emerging world, not to mention the restart of about half the Japanese fleet, the world will be very short uranium again before too long.

Our central case for uranium long term is around \$65-\$70. But it's quite likely that if we don't get an incentive to produce more soon, that price can easily be back over \$100, as in 2007.

So it's a tough call between the negatives, including slowing demand growth and some relatively high prices, and the positives of continued demand growth squeezing the supply/demand balance, and some commodities at or already below marginal cost.

It's a mixed picture, but it's a mixed picture and not worse than that.

Andrew Ballingal: When you look at resource stocks however, and small/mid caps in particular, you would think we were already in a depression. Relative to the S&P at 1600+, and other general indices, the sectors are now well below GFC lows. We call it Resourcegrad.

Some weaker players will undoubtedly go bust, and are thus still too high.

But many sound companies are already very cheap, and the ones which we own we believe to be even cheaper than that! Even making conservative assumptions about commodity pricing and costs, they are trading at huge discounts to NPV – as much as 60 or 70%.

These companies are characterized, unlike the large resource companies, by excellent management, both in an operational sense (finding, building and running projects), but most importantly, also in a financial sense; they have first class projects, characterized by very attractive places on the cost curve, which typically means good grades, low strip ratios, good infrastructure, decent size, decent life and, critically, substantial optionality through exploration and expansion; and they are selling at extremely low valuations.



Andrew Ballingal

So that's one key theme, and that extends across a range of buckets.

In Energy, we are most excited by unconventional oil and gas, mainly in Australia, but also by one play in each of China and Indonesia.

As noted above, we are bullish on uranium, and even more bullish on uranium miners. We think the spot price will move up by approximately 50 to 70% over the next two to five years, and that this will lead to a very substantial appreciation in the prices of uranium mining companies.

Coal is going to remain a very, very difficult area; we only like low cost, very high quality coking coal, which I think will remain a relatively scarce resource.

In Industrial Materials; it's very much case by case, but we own one or two of the great copper/gold mines that will be built in the next few years, and two free options on very low-cost production growth in iron ore.

Mineral sands, after a boom, are washed out again, and we have two great plays, one fully integrated.

Finally, gold shares have been absolutely killed, and are certainly due a technical bounce. Over the next one, two, three, four years, we expect another major bull market.

Andrew Ballingal: We have three or four key secular Asia growth themes which we're very excited about.

The first of those has done well, but I think has got a long way to go; in some ways it's the most reliable and most attractive of all the consumer stories. We call it "Humancare" - pharmaceuticals, pharmaceuticals distribution, medical devices, healthcare services, looking after old people and in some, looking after the young, as well as education. This whole nexus we find very exciting.

Second, the general consumer story, which is alive and well. We are reluctant to invest in the glamour stocks which are now trading at huge multiples, even, with regards to their perspective growth. But "everyday value" is still available, and across the region - relatively low-end, relatively lowly-valued consumer opportunities.

The other key theme we're excited about is Smart Capex / Cleantech. Asia has invested far too much in expanding production, and we've now got excess capacity problems in a number of sectors.

The really exciting investment story now is about improving the quality of that growth, its profitability of that growth, and its sustainability through investment in hardware, software, and services.

This will improve product quality, manufacturing efficiency and competitiveness, and thus profitability, and critically also reduce the impact of growth on the environment.

A whole range of companies across the region are involved – Japan probably has more than its fair share.

The third is a difficult theme to invest in, but it's obviously a key part of the Asian growth story and to some degree everybody in this room is part of it, which is looking after the increasing wealth of Asians.



Emerging market growth tends to lead, at least initially, to very unequal distribution of incomes and assets, and while this is corrected periodically by crisis, recessions, revolutions, et cetera, there are and probably will be increasing numbers of very rich people in Asia who need their money looked after.

I think that finding the companies who will do that successfully is the really big mission. It might be insurance companies, stock brokers, boutique asset managers, even some smaller or more specialized banks. On a long term basis we will be absolutely amazed by the snowball effect - how something that starts off quite small can end up extraordinary large. The explosive growth in Schroders as a money manager from 1982 to today is a good analogy.

So that's the secular themes.

I said I would wrap up by talking about the most immediately exciting opportunity - Japan.

Now it's clearly massively overbought. I've covered Japan since 1984, for 15 of those years as a strategist, and statistically, the market been as overbought on a wide number of key indicators as it is now. But we're in a roaring new bull market, and all the more powerful for both the length and the extent of the preceding bear market.

Andrew Ballingal: I think the turnaround in Japan is for real.

We said for the last two or three years that Japan was structurally extremely cheap and thus relatively low risk. The catalyst would come, we argued, when Japan finally exhausted its ability to avoid painful change, mainly by spending public money; fiscal policy depletion, combined with potentially negative demographics, and the rise of a still hostile China, would leave it with no option.

Abenomics is the result.

What's happened in Japan is primarily a geo-political phenomenon; the US has decided upon - and Japan has acquiesced in - its re-emergence as a significant force within the region.

When Deng Xiao Ping said to get rich is glorious, he did not mean driving a better class of Mercedes. He meant driving a better class of tank. What is going on in Japan is certainly in part a response to social and economic factors, such as the demographics and the public debt, but it's at least as much a psychological and geopolitical response to a real emergent crisis in the region.

Now that crisis could turn into something very nasty. I wouldn't discount it; I have said for a very long time – pre-Kobe and pre-Fukushima – that the two really big risks in Asia are the geological and the geopolitical.

Thus, while I am very concerned that at the end of the Abe road lies a disaster in terms of geopolitical or macro instability, while we are going down the first stages of this road, Japan will only look richer and stronger. It's just too early to start positing the disaster thesis. We have still got a really nice run ahead in Japan.



The focus then clearly has to be the domestic reflation beneficiaries, with banks, brokers, insurers and real estate companies to the fore. Having just set some Olympic 100m and 200m sprint records, they may well have a little lie down here, but beyond that many still have a long way go in terms of profit recovery and rerating.

The same applies, if in more muted fashion, to the market as a whole. While on the face of it, equities have risen a great deal, expected earnings have risen almost exactly in line, fueled to date primarily by a substantial decline in the yen.

And although the yen's decline from here will be more measured, with the realistic prospect of sustained real and nominal growth, and at last a genuine domestic credit cycle, earnings could easily still surprise significantly for some while.

So I can think of no more positive story on earth than Japan right now.

Matthias Knab

Thor, you do a lot of research on Asian hedge fund managers. From the private banking and therefore the allocator side, how are Asian hedge funds doing?

Thor Monsen: The last five years have undoubtedly been challenging for the Asian hedge fund industry. In this period we have been through two of the worst years ever seen in the history of hedge funds: 2008 and 2011. But a much overlooked fact is that Asian hedge funds overall have made positive returns from the beginning of 2008 to today, whilst the Asian equity markets have been negative over the same period. This is real outperformance in terms of total return with significant lower volatility. A more structural issue that Asian managers have had to face is that net inflow into the industry since 2008 has come from pension funds and endowments, and these investors are finding it difficult to identify funds in Asia that meet their investment criteria. I can understand that these investors are more comfortable allocating to a large US or global fund than some Asia specific fund based in Hong Kong or Singapore. Hence Asia has been missing out on the inflows into the global hedge fund industry.



When it comes to private clients it is no secret that their allocations to hedge funds have been muted since 2008, both in Asia and elsewhere. Many clients lost faith in the industry during the global financial crisis and this has not yet been fully restored. It is not necessarily performance related - most Asian clients are more than capable of accepting volatility - but the experience of having their investment locked up or their redemption request suspended has been more damaging than most hedge funds seem to realize. Still one of the first questions I get from our clients today is 'what did this manager do in 2008' and by that they are not just asking about performance but how the fund treated investors during the crisis.

Our clients are generally very underweight hedge funds, not just in Asia but globally. For a medium risk investment portfolio we recommend a 16% allocation to hedge funds. I believe other private banks have similar targets, which means there is a large gap between where HNWs are allocated to today and where we advise them to be. This client segment is the biggest potential for the hedge fund industry today, in Asia and elsewhere.

Matthias Knab

You talked about the frustrations of private clients about the lock ups and suspension of redemptions etc. in 2008. Since then, many institutions and family offices address this issue by using managed accounts. Are managed accounts embraced or sought by private clients as well, are they part of the solution going forward?

Thor Monsen

Regardless of using managed accounts or not, our number one promise to clients is that every fund that we approve will have terms that match their underlying investments such that even in a stressed scenario these funds will be able to honor their redemption terms. Our research team talks with all the managers at least once a month to ensure that this is the case, and in addition we have an independent ODD team that performs regular reviews on all these funds. We do not hesitate to advise our clients to exit funds that no longer meet our criteria and we remove our approval once we are no longer confident in a fund. We are able to achieve this without having to go through managed accounts, but in some cases we prefer the additional control that managed accounts offer us. Today we have a combination of different solutions for our clients to access hedge funds, including managed accounts in some cases where it makes the most sense. But it is certainly not a requirement for us as we will always ensure we have sufficient transparency and oversight outside of managed account set-ups. In terms of client perceptions I do not get much specific requests for managed accounts from our Asian clients, so for us we use managed accounts only if it makes sense from a due diligence perspective and not to meet some marketing criteria.

Jessica McCarroll

I agree with both of you. On the macro side, I think Andrew is spot on, especially regarding Japan which has been a big game changer for our market in Asia. I also agree with Thor – what we hear from family offices is that they have not much invested with hedge funds at all. Because they are chasing yield and have had a good environment to do that for the past three years, there seems to be an attitude of “why bother with hedge funds?” But like Thor, I see that changing for the reasons he mentioned.

Jessica McCarroll: Further to the comments made by Thor about gates and lock ups, liquidity is important for many investors and if a fund is invested in a liquid strategy then gates are clearly not in the best interest of the investor. I am a big believer in liquid strategies, as the risk with Asian strategies in general tends to be liquidity. In the previous fund that I managed, we fully honored all redemptions without putting up any gates. Similarly in the new fund I am launching, we not only have no gates or lock ups but actually offer weekly liquidity, which is pretty unique in the hedge fund industry.

I focus on the relative value space, so we are looking to exploit quantitative anomalies in equity pairs in the Asia Pacific region, including Japan and Australia. We are market neutral, focusing on extracting pure alpha. Our primary risk is liquidity, which we mitigate by only investing in liquid cash equities and manage through position sizing. The recent trending and advances of the Asian markets have been very beneficial for us.



Jessica McCarroll

One way to describe what we are doing is being almost an arbitrageur within diverging equity pairs. That is, as pairs of cash equities that are highly correlated with each other trade outside their normal trading relationship we capture this divergence and as the stocks move back to more normal levels by shorting the expensive one and going long the relatively inexpensive name. While each trade is in itself a simple pair trade, we have rigorous investment criteria that each trade must pass prior to being implemented.

Our pairs are each country, sector and exchange specific and we have no cross-border trading, which is another aspect that makes us pretty unique. Should there be, for example, a regulatory problem in a market like Korea, and for whatever reason they prevent short selling our positions will not be materially affected because both the long position and the short position are in the same market. So, our fund is very much a pure alpha, cash plus yield type product and our returns are uncorrelated to equity markets.

Jessica McCarroll: If an investor is looking for the guy or the girl with the magic touch that can make them 20% with no risk, that is not us but perhaps somebody else. We see our role as managers to be a real diversifier for the investor. Some may also see us as almost a replacement for what they got in the credit space for the past two years.

In terms of opportunities here in the region, I do like Japan for the reasons mentioned previously and because the local retail investor is now buying Japanese equities in the largest size since 2001. I have been managing money in hedge funds since 1991, and historically the greater Chinese markets have provided fantastic trading opportunities thanks to the large retail participation in the equity market. We see the same in Korea as well.

In Asia, this cultural element exists that won't go away in the short term. The speculative activity of the retail investor creates anomalies that add fire to the relative value space that you do not necessarily get in Europe or the US.

We have a proprietary model that we started when we were at Lynx Arbitrage, which measures the temperature of global liquidity and gives us risk-off signal when the risk of a liquidity-induced correction occurs. We used it in our hedge fund pre 2008, and that really helped us preserve capital during the crisis. Over the past few years we've been managing tail risk for family offices and the model is a key determinant for those mandates. Actually, it has helped us manage money in general, since about the mid-2000s.

I think as long as we are in sort of the great experiment with QE, we're going to have risk-on risk-off. There are two camps; one that thinks that everything is going to blow up, and the other that thinks everything is going to be fine and Bernanke is on the right path.



And whilst we're having this experiment and this argument, we're going to be in a risk-on risk-off world.

What we're seeing now is longer periods of risk-on. Previously, we had short periods of risk-on followed by a short period of risk-off, and it was much more choppy. Now we're getting longer periods of risk-on, and we think that it will continue, but the key is to get that the risk-off signal so that you can just go to cash. And that is exactly what we do in the fund.

Jessica McCarroll

It's not that you want to be clever about it and go short when risk goes off. The key is to go to cash and get yourself out of any situation where you are going to be in an illiquid stock or you are going to be in an illiquid market. So that's really where we see that the edge - being able to recognize when liquidity, or more particularly illiquidity, is going to be a problem.

Carl Wong: From a macro point of view, we are bullish about Asian credit. First of all, we think the default rate will continue to be low this year, particularly after many companies have issued new bonds YTD. This is very beneficial to corporate balance sheet as it has not only extended borrowers' debt maturity but also lowered their cost of funding.

Secondly, the liquidity situation created by all the QEs from various central banks is highly supportive to Asian credit. For example, emerging market bond inflow was about \$17bn YTD, up 44% compared to the previous year. Comparatively, emerging equity inflow was only up 15% yoy YTD. These numbers suggest that buying interest in credit remains very strong.

In terms of the return attribution, we believe most of the return will be coming up from coupon rather than capital appreciation this year. Therefore, selecting a bond with a juicy coupon and stable credit metrics will be the key of your performance this year.

I agree with the previous speakers that from a market perspective, Japan is obviously very interesting. Within the credit universe, we found that the most interesting instrument is Japanese convertible bonds. From a technical value standpoint, implied volatility is going up in Japan and at the same time, equity price has gone up crazily. On the other hand, credit spread has been tighter due to BoJ's QE. So when all the boxes are checked, there are plenty of reasons why we like Japanese CBs.



Carl Wong

Sectorwise, we've spent a lot of time looking at Chinese properties. I know that the market has a lot of criticisms about this sector, saying that the government has implemented numerous tightening measures to prevent property prices from going higher. While headline risks remain high, fundamentals of Chinese property developers have improved significantly since 2012. What I mean here is - if you look at the GFA sold YTD, it was up something like 44% yoy. Average selling price (ASP) is somewhat flat. That means Chinese property developers now understand what the government wants, which is, keeping property price stable while letting volume grows. The growth in volume (GFA sold) alone would be very positive to their PNLs in 2013. Besides, they have managed to refinance at a much lower cost YTD.



Carl Wong: Don't forget that all these Chinese property developers are highly leveraged companies. While they borrowed at somewhere between 15% and 20% last year, this year they could refinance borrowings at 8% to 10%. There is a substantial reduction in interest cost. So far this year the new issuance is about \$60-70bn in the Asian bond market, and one third is coming from Chinese property developers. Let's say their new issues amounted about \$25-30bn. Assuming a 10% interest cost reduction, there is \$2.5-3.0bn profit just by issuing new bonds. Finally, if you are looking at evaluations, last year they were trading at a distressed level. This year, they just got re-rated back to a normalized level. I believe the re-rating will carry on because there are not many sectors in China which will give you a visible 20% to 25% plus earnings growth.

In terms of things that we don't like, I agree with Andrew's views on commodity, particularly on thermal coal. Chinese coal is suffering from a structural decline at the moment.

Carl Wong

Please allow me to share some insights from our onsite due diligence – I've spent months in China looking at coal mining companies, railways, ports and also IPPs (Independent Power Producers) - virtually the entire value add chain. Previously a lot of Chinese coal was produced from the Eastern side of China. Up until about two years ago, the East accounted for nearly 50% of total supply. Nowadays, the supply dynamic has changed a lot because Inner Mongolia has become a significant new supply provider. By 2015 Inner Mongolia will account for one third of Chinese coal supply, and the cash cost there is as low as RMB 90 to 100 per ton compared to the spot market price of RMB 615 per ton. By all means, this new supply is cheap. At the same time, the Chinese economy is undergoing some restructuring, moving from less manufacturing to more consumption growth driven model. The combination of a larger cheap coal supply and a declining demand would create a lot of problems for Chinese coal miners. Therefore, we are bearish about coal miners, and by the same token, we like IPPs because they are the biggest beneficiaries of lower coal prices.

Anne-Marie Godfrey

As a lawyer practicing in the area of alternative investment funds, what I have noticed over the past year and a half or so is that the proportion of my practice that comprises non-contentious regulatory advice has increased significantly relative to the transactional proportion. I notice that a lot of our clients are really finding it difficult to get hedge funds off the ground because they have to deal with the cost of compliance with extra territorial legislation like Dodd-Frank or the Alternative Investment Fund Managers Directive, and also because the regulator here in Hong Kong has introduced new requirements like short position reporting rules and has generally become a lot more active with routine inspections and enforcement.

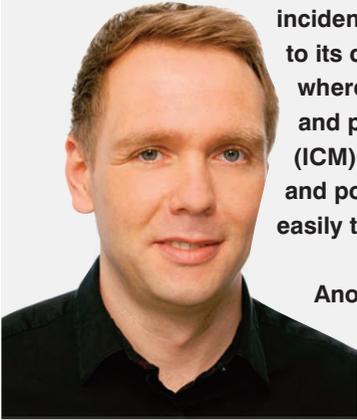
At the same time, start-up managers face many difficulties in raising capital. The start-up managers leaving the investment banks and setting up on their own are taking a lot longer to do so. The AUM figure you need to have to run a sustainable hedge fund has certainly increased, and the larger endowments and pension funds in the U.S. and the other institutional investors are doing a lot more due diligence than they used to do, and wait for managers get to a certain AUM level before they are prepared to invest.

Anne-Marie Godfrey: The financial crisis together with all the regulatory developments since the financial crisis is leading to new types of fund structures. We certainly see amongst European institutional investors a hesitation when it comes to investing in Cayman Islands domiciled structures, so increasingly Irish and Luxembourg structures are being set up in parallel to the Cayman Islands structures for European institutional investors. I believe that this isn't yet a big theme for the local Asian managers, because European investors aren't their main fund raising target and Europe is certainly not as important as the U.S. when it comes to raising money. We will probably see that over the next five years AIFM Directive compliant fund structures will become a brand in themselves, particular as the EU proposes to abolish the private placement regime in 2018.



Markus Georgi

I agree with Anne-Marie that the global regulatory changes in the U.S., Europe and Asia keep everyone very busy. At present at the Eurex Exchange, we deal with topics such as the financial transaction tax and regulations on high frequency trading in Germany and Europe. It is a development which will strongly affect European exchanges and certainly international investors as well. These changes in the regulatory framework will have an impact on hedge funds trading the European markets, especially if those funds are involved in high frequency trading. This is in addition to other compliance related topics resulting from Mifid II, EMIR and Basel III requirements being discussed and implemented on the exchange and clearing house level.



Markus Georgi: As a result of these regulatory requirements, and due to certain bankruptcy incidents of financial houses over the past years, Eurex offers a number of new clearing services to its clients in response to market demand. This includes our Client Asset protection facility where end clients such as hedge funds have the choice to either post their margin collaterals and positions with their respective Clearing agents or, in our new Individual Clearing Model (ICM), in a dedicated and segregated account at Eurex Clearing house level. Clients' margins and positions are protected against clearing member default in this model and positions can be easily transferred to a back-up clearer.

Another major offering we are currently working on is the enhancement of our OTC Clearing services. We have recently set up a new OTC clearing platform for interest rate swaps and intend to offer more OTC clearing related services in the future.

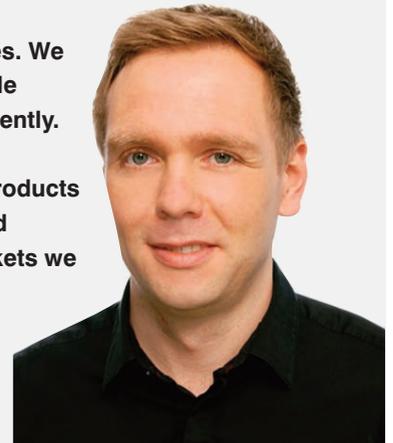
Markus Georgi

I would like to get back to a point made earlier regarding the decline in stock market volatility which we have seen over the past years. As mentioned by Thor it has affected certain hedge funds and hedge fund strategies but it has also affected exchanges where, together with the decrease of volatility, trading volume has been down. With stock market volatilities at multi year lows we also believe that the market will recover in the mid term.

Markus Georgi: Also, trading government bond markets has become more complex. German bond futures for example are hovering at all-time highs where we have noticed a change in investment behavior. This is certainly something which affects Eurex as an exchange since we are quite focused on German bond market derivatives.

One way to address those points and also to help traders and investors to exploit new opportunities in the market is to increase exposure in different markets and asset classes. We are always looking for new products and services which can help investors find profitable opportunities and for the exchange to attract liquidity for those markets to function efficiently.

In the listed derivatives space we are currently looking at introducing a few promising products in 2013, including the FX market, certain emerging stock markets, further European bond markets but also at commodities, specifically with demand in Asia. For some of the markets we look at it might be more beneficial to work with a local cooperation partner rather than competing with them. A good example has been our Kospi options which we launched in cooperation with the Korea exchange. A similar project is currently being implemented with the Taifex to offer Taiex Options and Futures on our exchange.



Matthias Knab

Eric, your family office follows the rather untypical strategy of building out a rather large in-house prop trading operation. Can you tell us more about what you do and what you observe from that unique perspective?

Eric Wong: We like to think of ourselves as an active investor working with emerging managers, proprietary traders and market makers that engage in strategies that are typically capacity constrained, institutionally unpalatable, and trading related. So we generally focus less on the more prevalent fundamentals driven strategies. We also don't believe in alpha. We think there are only costs and risk and all else is some sort of beta or cyclical performance. The winners are the ones disciplined to manage costs and risk and patient enough to wait for the cycle to turn in their favor.

Anne-Marie already referred to the difficulties of emerging managers setting up on their own, and it is a fact in the asset management industry globally and in Asia that the global giants are raising most of the money. On the other side you have many zombie funds who find it very difficult to raise any AUM for a number of reasons, including the lack of an institutionally acceptable pedigree.

So for many of the funds here in Asia trying to have a fund is a broken business model, and they can do one of two things. Either raise their quality in terms of performance, professionalism and pedigree (by adding partners), which is certainly possible, but very difficult given the competition from very capable large global firms coming to Asia. In many cases, Asian investors actually prefer to invest with a U.S. manager in Asia than go with a locally managed fund. Another way managers can deal with this situation would be to focus on a different investor base and to run a different business model than the standard practices in the industry if it makes sense. For example, looking at fees, why does a trend follower charge 2 and 20? I feel it should be 1 and 10 as it has become a beta type strategy and the case for 2 and 20 is questionable. Ultimately though it is likely there will need to be a shaking out of the industry to remove the excess capacity most likely starting with the smaller managers.



We generally focus on market microstructure related strategies that previously were partly housed within banks but more likely within large, global market makers. In the good years, and for most of them 2008 was one of the good years, these strategies can hit triple-digit returns on trading capital. As a result some of the market makers got careless in managing costs and hired too much staff as well as allowing IT costs to balloon. At the same time the regulatory environment has changed and added another layer of costs. For example several jurisdictions I feel are moving towards a “local for local” preference for market makers where the exchange and regulator would like to see the market maker have a substantial local presence rather than operating largely remotely.

Eric Wong

With the cost pressure having gone up for many of these large, global market-making firms, some have responded with ever higher levels of automation and a reduction in headcount. But, certain niche markets are often not amenable to automation and being plugged into a global risk platform, so the firms sometimes choose to just stop trading those markets. For example, Hong Kong is not an optimal market for high levels of automation and combined with its high barriers to entry for market makers means it needs more market makers to improve liquidity.

Eric Wong: A small team of even just one trader, one IT and one operations person can essentially trade most markets, so you see some of these groups coming out of banks and market makers for various reasons. However, they are in an awkward situation from a funding perspective as they are generally not looking to raise a large amount of funds (<\$10m) because their strategies are capacity constrained. So they generally have trouble approaching institutional investors as their strategies and business model are quite complex but they are not looking to raise or deploy a large enough amount to make it interesting for an institutional investor. A market making firm would be a good candidate but there are often personality and culture conflicts and there is a concern of sharing the IP and knowhow and the issue of going back to becoming an employee rather than a business owner. The ticket sizes they are looking for would make them a fit with family offices except that most family offices would be even less comfortable with their strategies and business model. We hope to step in and provide a solution.



Matthias Knab

Can you quantify the type of returns these types of strategies can offer?

Eric Wong

Well it has come down quite a bit because the whole industry is a different ball game now, but our expectations on such strategies are at least 50% on trading capital before costs. Once you factor in cost, it's really about how disciplined they are as business people to control costs.

Matthias Knab

What is your view on China and the opportunities there for financial services and traders?

Eric Wong: I am by no means an economist, but I believe the economy there is already at 5% GDP growth, forget the 8, 7 or 6%. I believe it's at 5% and that it will go further down from there. But, I have never been more bullish on the longer term prospects and opportunities for financial services in China. I think the easy money has already been made in China, by the locals mostly and generally not in financial services, but now there is a serious demand for financial services especially asset management. However, it will not be easy to meet this demand and will require focus, organization, and bringing a global perspective and exposure.

I think everybody gets a second chance in China, for example brand-wise or businesswise, and also so far I don't think anybody has built a real name in terms of asset management excellence in China. The local players are certainly working very hard to expand and improve, but they may not have the global knowhow that is required to do that.

On the other hand, global players generally don't understand China so that opens up a unique opportunity in my view for maybe the next decade where financial services are a wide-open field. At the moment, nobody is really hobbled by not having a brand since nobody has one, and so that opens a chance to build one, even if you are a small firm.

Let's look at financial Instruments available in China. You can now short equities but at a very costly rate, though it will get better over time. You have futures that have deep liquidity and soon options once the CSRC decides to approve those. I think options will be incredibly interesting, but access, as foreign parties, will be complicated if not impossible. So players who are both Chinese and international can potentially provide a bridging function, and we hope to do something along those lines.

I also found a lot of raw trading talent in China but I am less certain about fundamental analysis based strategies applied by Chinese investors or traders. What I do see are traders, both point-and-click and automated, willing to work 16 hour days trading or developing strategies and using very blunt instrument risk management skills in terms of "cut your losses and let your profits run." The key is to give them capital and access to foreign and even domestic markets, as generally they are not being supported well at the moment.



These Chinese traders generally don't have the pedigree like a Harvard MBA or such, investment banking or asset management work experience, and probably won't meet most other check the box criteria to satisfy institutional investors so it will be difficult for them to get support from institutional investors. Of course, investing with such traders requires a high degree of control. If one were to invest in a fund of theirs, fears of fraud and so on would be a major concern, but if you control their trading in a very active manner via managed accounts, it might be a viable proposition.

Matthias Knab

Could you please tell us more about Chinese investors and what they are looking for, what do they need?

Eric Wong: Besides the trinity of CIC, SAFE, and SSF and the insurance companies I think there is another set of investors within China like corporates and very HNW individuals who are looking to deploy capital. Here you also have a considerable mismatch because so far they are not being properly serviced because not many foreign asset managers know how to access them. So China presents large opportunities for new players who can access that set of investors that I think is at least as big as the top tier I mentioned.

First, their demand comes from the limited options to invest domestically and the quality of the asset management industry in China, which will drive them to look at overseas markets. The QDII rules have become quite accommodating and there is abundant capacity, but again few have really made the QDII method work as a bridge to help these investors in China access global markets and strategies.

For better or worse, at this point these investors are relatively agnostic to investment strategies and are mainly driven by returns. One positive aspect for quantitative driven managers specifically and emerging managers in general is that they would not have any inherent biases against both groups as is common with most institutional investors. The key will be how to build the relationship with these investors and how to educate them on the risks and benefits related to various investment strategies. This will be a lengthy process but I think it will be worthwhile.



I see a somewhat similar opportunity in other global emerging markets, so not just China but also India, Latin America and Eastern Europe, I see the opportunity for both investors going there and for their domestic base of investors to invest internationally. Eastern Europe with the big three exchanges - Moscow, Warsaw, and Istanbul – have very deep markets in equities and futures but not yet sufficient depth and liquidity on the options side. That is a possible opportunity for market makers.

Matthias Knab

I have a question for Carl. Anne-Marie and also Eric mentioned the challenges for new funds to raise capital. With a capital base of over \$800m, Samena is a great success story within Asian hedge funds. How did you do it?

Carl Wong

Raising capital becomes very difficult for the smaller asset managers. Today, institutional investors focus a lot on the operational side of the fund management company. In the past, their due diligence team spent like 80% of their time with the CIO because they wanted to understand the CIO's investment style, the logic of his trades, the stories he liked etc. Nowadays 80% of the time is spent on the operational side including risk management, compliance, legal setup and marketing team. They want to understand whether you have a sustainable business plan before they move on to talk to the CIO. Without a proper setup, it's actually very difficult for the smaller manager to raise money versus the big guys.

Luckily for us, we had a long term business plan when we first started out in 2008. We've put in a lot of efforts in building up the infrastructure, which prevents us from having the problems which other smaller asset managers might face today.

Matthias Knab

Where are your assets coming from mainly, is it local, international or is it 50-50? Is it more institutional or more high net worth?

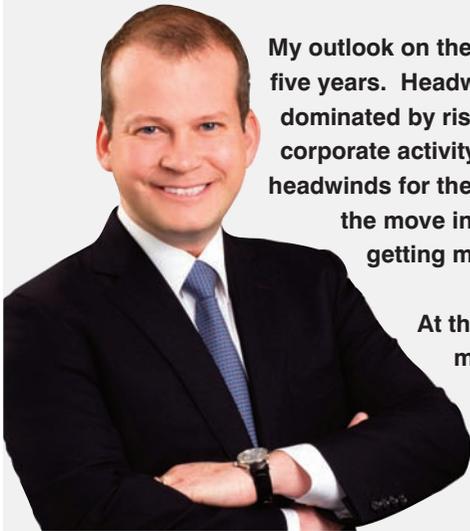
Carl Wong

The capital is mostly from high net worth and also from our shareholders. We haven't had a lot of exposure from institutional investors yet. But now with a decent few years of track record, it is a good time for us to open up to the institutional investor group.

Thor, please share with us what else you see from a research perspective about the state, developments, outlook and trends in Asian hedge fund and alternative investment industry.

Thor Monsen: I have researched Asian hedge funds for 13 years now and I think we all agree that the changes have been very significant both in terms of the quality of funds and range of investment strategies. But it is still a young industry that is rapidly developing. I sometimes feel that managers here in Asia should be more willing to learn from their peers in the West, especially in areas of running their business and risk management. The industry in the US is naturally further ahead on the development curve so there must be relevant knowledge there for Asian funds to tap into. It is certainly the case that we find more potential candidates for approval outside of Asia and we probably encounter more red flags in this region than elsewhere.

What we are looking for are strategies that are 'proper' hedge funds and not directional funds charging hedge fund fees. We want our clients to access returns that are not possible to replicate themselves or cannot be accessed through traditional funds. And we need to identify a sustainable edge from our hedge funds. We are starting to see more such funds in the region now but by far most funds in Asia would still not meet our criteria.



My outlook on the industry in Asia, and globally, is more positive today than at any time in the last five years. Headwinds are abating and tailwinds are emerging. We have been through a period dominated by risk-on/risk-off, high levels of correlations, declining volatility and low levels of corporate activity. All these are negative factors that have normalized this year and are no longer headwinds for the industry. Trends have re-emerged, just look at how well hedge funds captured the move in the Yen and in Japanese equities. Returns have improved and as a result we are getting more enquiries from our clients, this is very encouraging.

At the same time as hedge funds are performing very well this year, you have seen mixed results across the various Asian equity markets, US equities at all-time highs and historic tight spreads on bonds. Our clients are now looking around to find diversifying investments to both equities and bond markets and we believe the answer lies with the hedge fund industry. If these trends continue we will see significant inflows from HNWs back into hedge funds.

Jessica McCarroll

Pre-2008, if you had a tried and tested investment process and a good team, you had good returns, you would grow. The due diligence was comprehensive but not extraordinary. The thing is that CIOs usually do not make good CEOs or COOs. Now a significant portion of funding a business goes into paying for good people to fulfill those roles so the CIO can focus on providing superior returns to his investors.

Returnwise, 2008 was actually a really good year for us, but because we offered and honored good liquidity terms and didn't have gates or side-pockets or any of that stuff, we were the ATM for investors who couldn't get their money out from the other funds. So it didn't matter that we did well, we were friendly to our investors and they took the money away because they could. That is a tough 'Catch-22' in that some funds stayed in business because they put up their gates, and so ended up being in a better position than Lynx, even though they were down.

Jessica McCarroll: The crisis of 2008 changed a lot of things, and as we discussed it has become very difficult to start your own hedge fund. You as a manager may be better off giving up some of the upside and partnering with someone who provides a solid backbone and underlying infrastructure that funds require to nowadays if they are going to raise capital from institutional investors. That is what we did when we teamed up with Silverhorn. Silverhorn has an amazing infrastructure and the founders, all of whom are Swiss German, are very efficient



and very good at what they do. So I am very pleased with the infrastructure, the risk management, the COO, compliance, systems and everything. Having that backing lets us as the managers really do our job.

Jessica McCarroll

So that would be my recommendation to a start-up manager - don't try to do it alone. Go to somebody who can help you. Go find a seeder or a platform where you can really let your intellect or your team's intellect grow, and where you can focus on managing money and dealing with your investors, which are the things you should be really good at, instead of having to worry about paying bills, the valuations, back-office or matching trades. That's really for the operations and the risk teams.

Markus Georgi

Compared to 2003, do you think that trading infrastructure is more expensive today than 10 years ago?

Jessica McCarroll

Infrastructure, no; but compliance and legal fees as well as staff, yes. At Lynx Arbitrage, we were functioning more or less also as marketmakers, pretty much as Eric explained it. From early 2000 to now, I saw the price of systems getting cheaper and cheaper. But while hardware and software have come down a lot, the other parts got much more expensive.

Anne-Marie Godfrey

I do think that there is much higher demand in Asia now for good quality compliance personnel. Historically in Hong Kong, the SFC has always allowed investment management firms to outsource a lot of their compliance requirements but the impact of extra-territorial legislation and increased regulation in Hong Kong has meant that firms are employing compliance personnel directly. If a Hong Kong manager is fully licensed with the SEC, it will be required to have an in-house compliance officer.

The compliance component of an investment manager's cost structure has increased. There is a lack of people with a lot of experience in this area in Asia, and for sure there is pressure on compliance personnel to look at and sign-off on a lot of different issues. Compliance roles have become increasingly stressful positions to hold within an organization.

Matthias Knab

Could you please tell us more about the recent regulatory changes in Hong Kong?

Anne-Marie Godfrey: The Hong Kong SFC has recently introduced some additional requirements for example, the short position reporting rules which were introduced in June 2012. The SFC is heavily involved in IOSCO, and they are quite busy negotiating bilateral agreements with EU member states to facilitate the introduction of the AIFM Directive. The Hong Kong Investment Funds Association is very active on FATCA at the moment and it remains to be seen what kind of intergovernmental agreements will be entered into between the IRD in Hong Kong, and the IRS in the US with respect to FATCA.



The Hong Kong SFC is also more active from an enforcement perspective and has staffed up its enforcement department. In particular the SFC is focusing on mis-selling and failure on the part of licensed persons to market their products properly. The SFC is also pursuing the area of market manipulation and insider dealing as an enforcement priority.

In Singapore we have seen the abolition of the exempt fund managers' regime. Going forward, all fund managers in Singapore will be prudentially regulated and local fund managers in Singapore are going through that process currently.

Alternative investment fund managers everywhere are dealing with the profound impact of extraterritorial legislation. A lot of our Asian clients who are raising U.S. money became exempt reporting advisers last year with the SEC, and many of them also had to register with the CFTC or file for an exemption from the requirement to be CFTC registered.

We are currently working with a number of managers to update their PPMs to make their funds ready for the AIFM Directive. Managers are faced with a constant wave of regulation, and once they are finished complying with one regulation, they move on to the next regulatory requirement. It requires ongoing effort from both the regulators and the managers, and it is likely that none of this new regulation will prevent the next financial crisis.

The CSRC and SAFE made various announcements recently in respect to the liberalization of the RQFII regime. It has, to date, been the case that an RQFII license would only be granted if the firm is a Hong Kong licensed subsidiary of a Chinese asset management company or a Chinese securities company.

Anne-Marie Godfrey

The categories of the Chinese entities that can establish subsidiaries in Hong Kong and apply for RQFII licenses are being widened, but in addition and very interestingly in order to get an RQFII license going forward the licensee does not have to be a subsidiary of a PRC entity. The licensee can also be a subsidiary of a U.S. or European financial institution. We have had quite a number of inquiries about this since the new rules were announced and are involved in a number of RQFII products at the moment. That is a huge growth area.

Anne-Marie Godfrey: The proposed move towards mutual recognition of authorized funds between the PRC and Hong Kong is very interesting. I believe this is likely to result in more Hong Kong domiciled funds being established by foreign institutions and authorized by the SFC.



Eric Wong

I have a suggestion for the lawyers present. A lot of firms like ours who are looking to seed or cooperate with emerging managers and traders to set up trading operations but not necessarily to set up a fund or gather external assets need somewhat different skill sets from our legal counsel. While a lot of the traded instruments are standard, liquid instruments, the structure of creating any type of partnership between an investor like us and the traders is more similar to an M&A or JV transaction rather than forming a hedge fund. Typically we find lawyers who are fund and regulatory lawyers and then M&A lawyers but the groups rarely seem to overlap as the two are different practices within a firm. It would be great if there were more cross-disciplinary pollination of skill-sets.

Anne-Marie Godfrey

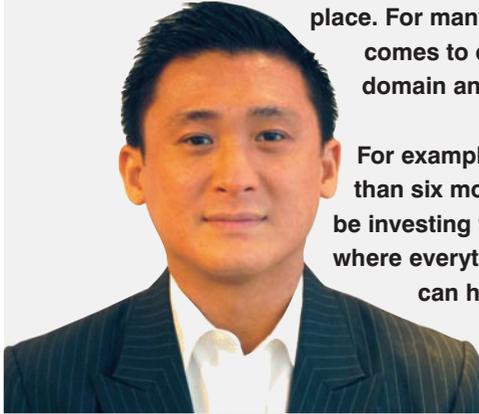
I believe a lot of that comes down to the personal background of the lawyers you work with. I qualified in Dublin originally and spent four years with a general commercial law firm working on a lot of M&A-type transactions. Matt and I have worked extensively together on acquisitions of investment management companies where Matt's team has done the deal work and my team has done the regulatory and funds due diligence and fund rebranding.

Matthias Knab

Let's look at the evolution of the Asian investor communities. What is it like for investment managers from the U.S. or Europe when they not only want to trade Asia but also want to raise assets here? Oftentimes, foreign firms do not really understand how different Asia is also in that respect. Do you have some comments about the Asian investor base?

Eric Wong: I would like to share a few words about the family office set of investors here in the Asian region. I think it's very important to note that the term 'Family Office' has a somewhat different meaning than in the West. A European or U.S. family office usually has been in existence for multiple generations and has multiple family members and families in the case of multi-family offices and has delegated much of the work to hired professionals. In Asia, the typical family office is in its first or second generation and is still guided by the first or second generation patriarch and often involves the family members especially the younger generation. Often once a certain wealth threshold is crossed everybody is a family office. It does sound better than high net worth individual and I think it captures the aspirations of the wealth creator and next generation to build something more enduring.

Then what the family office chooses to do can be quite a broad range from setting up a professional asset management business, or picking or seeding hedge funds, or to completely walk away from external managers and focus more on direct investments. Many wealthy families here and also globally are probably more comfortable with private equity than hedge funds because that is probably how they made their money in the first place. For many, their mantra is “we back businesses not investments.” Also generally when it comes to outside investments, they start small and slowly build up their expertise in a domain and follow their own investment rules that are based on their business experience.



For example, we have a six month rule. That means if we don't know someone for more than six months during which we have been interacting continuously with them, we won't be investing with them. We think those first six months are usually a honeymoon period where everything sounds brilliant and they seem like the perfect partner. However, nobody can hide whom they really are or what their firm really is for longer than six months.

At some point, the truth comes out. So we just have to wait and keep annoying people with questions until the truth eventually comes up.

Anne-Marie Godfrey

We are seeing a huge amount of due diligence being done by prospective investors. We as service providers regularly get questions from prospective investors that we didn't use to get pre-2008.

We also find that more allocators and consultants are being appointed by investors and we are increasingly contacted by them when they are conducting due diligence on prospective investments. What's behind this is a trend among pension funds and endowments to hand over at least some responsibility to Asian service provider for selecting investments given that they are on the ground and they know the market better. So while we are seeing a lot of consolidation in the fund of funds space, there are a number of allocators in Asia selecting investments on behalf of a number of end investors or at least are involved with on the ground due diligence.

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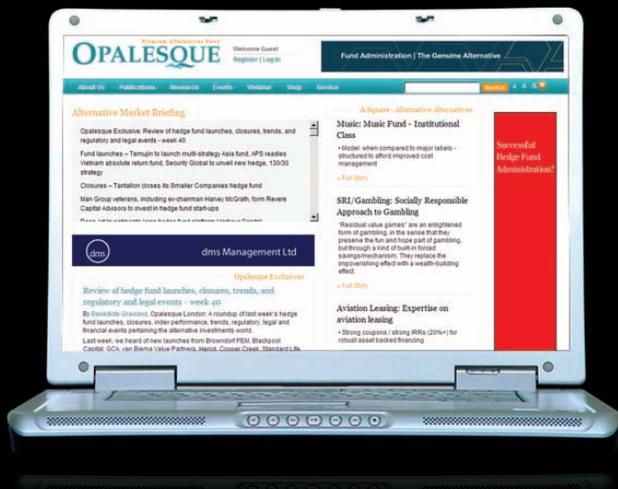
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