



Opalesque Round Table Series '13 NEW YORK

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Editor's Note

Why the short side may soon work again

So far in 2013, the short side has caused a lot of frustration for long/short managers. With the markets going straight up, not only has shorting not worked, the top 50 most shorted stocks in the S&P 500 have actually outperformed the S&P by 20% this year. These things typically happen in a market beta rally where typically all junk stocks rally. That, by the way, also explains why the average equity long/short fund is up only about 8% for the year net, so much less than the S&P.

Visium Asset Management did a study on this phenomenon, looking back at the last 25 years across multiple cycles in a 12 month time period. *When the most shorted stocks outperform by this much, then typically they start to mean revert drastically.* This could be a very opportune time for the short side, and for hedge funds generally.

Investing in peer to peer and online lending

Increased regulation will not dampen but further fuel the growth of alternative and online lending industries. New players have launched funds which pioneered the use of leverage and securitization in a peer-to-peer lending asset class. Five to seven years ago, it wasn't thought possible for an institutional investor to assemble a portfolio north of \$100m or more in small balance loans. However, technological changes over the last few years have made it possible to originate and acquire these loans in a very cost effective manner. The traditional, bricks-and-mortar banking cost structure requires institutions to spend 5% to 7% of the principal balance of the loan in origination – general overhead, regulatory, and other costs. The online lending industry can originate loans for less than 2%, so, effectively, there is an arbitrage built into this asset class that is reminiscent of many other credit categories that over the years have been disintermediated.

The Opalesque 2013 New York Roundtable also discussed:

- **Tax-efficient investing: How hedge fund investors can get the best after-tax returns**
- **How “structural alpha” can preserve and even amplify returns**
- **How to profit through post-reorganization and turnaround equities**
- **What are the biggest opportunities in China and Latin America?**
- **With the introduction of OTC clearing, a major challenge for the buy side is having to provide collateral for initial margin on a daily basis. How do the clearing houses help?**
- **How fund administrators help smaller managers get off the ground and grow faster.**

The Opalesque 2013 New York Roundtable was sponsored by Maples Fund Services, Eurex and Taussig Capital and took place November 12th with:

1. Bob Kim, [Visium Funds](#)
2. Ambrose Paxson, [PING Capital](#)
3. David Tawil, [Maglan Capital](#)
4. Jim Robinson, [Middlebury Securities \(representing Taussig Capital\)](#)
5. Jonathan Barlow, [Eaglewood Capital Management](#)
6. Byron Baldwin, [Eurex North America](#)
7. Jason Brandt, [Maples Fund Services](#)

Enjoy the read!

Greg de Spoelberch

Participant Profiles



(LEFT TO RIGHT)

Greg de Spoelberch, Ambrose Paxson, Jonathan Barlow, Jim Robinson, Bob Kim, David Tawil, Jason Brandt

Absent at the time of taking the photograph: Byron Baldwin

Introduction

David Tawil
Maglan Capital

My name is David Tawil, I am a Co-Founder and Portfolio Manager of Maglan Capital. We are a \$60m event-driven, distressed focused fund that principally invests across the capital structure of companies approaching or undergoing turnaround, distress, bankruptcy or restructuring. Our fund has done very well of late – it gained 41% last year and is up 39% year to date. Our target returns are 15% to 20%. My background is in bankruptcy, restructuring, turnaround and distressed. Prior to starting Maglan, my partner, Steven Azarbad and I worked on the sell-side at Credit Suisse, with a proprietary investing mandate. Steven and I started our careers together at Skadden Arps, practicing bankruptcy law. Steven clerked for the Delaware bankruptcy court and also worked at Weil Gotshal. In addition, I practiced at Davis Polk & Wardwell. Our investment strategy plays to the strengths of our backgrounds, contacts and experiences. The best recent and current opportunity we see in our investment strategy is in post-reorganization equities. However, we are mindful and anticipating a corporate distressed wave in the United States beginning within two years.

Jim Robinson
Middlebury Securities

My name is Jim Robinson, I am a Principal at Middlebury Securities. Our firm has been around for 15 years and focuses on a number of different areas, one of which is particularly germane as these days we're in partnership with Taussig Capital. We have built a platform in Bermuda where we advise asset managers on launching reinsurance companies. We have three different companies in the market at the moment where we raise permanent equity capital which is then supplemented by premiums from the reinsurance business to supplement the existing asset management business. This is a strategy that has gained momentum recently with public floatation of Dan Loeb's Third Point Re.

Ambrose Paxson
PING Capital Management

My name is Ambrose Paxson, I am the CFO and COO of PING Capital Management. We are a Global Macro manager biased towards emerging markets. We have offices in New York and Shanghai.

We currently manage two funds, the PING Exceptional Value Fund (PEVF) and PING Emerging Markets Macro Fund (PEMMF). PEVF was launched in 2008 and is one of the top performing emerging market funds in the world with + 36.9 % net annualized return through October 2013. The PEMMF was launched in December 2010 and is a more diversified and liquid alternative created for institutional investors.

Both funds utilize the same investment themes but PEVF can be concentrated in Ping's highest conviction ideas whereas PEMMF is a more diversified alternative. PEMMF tends to outperform PEVF in choppy markets, as it did in 2011 and 2012.

Firm's assets under management (AUM) were approximately \$315m at the end of October 2013. Ping and employees are invested side by side and make up significant amount of total assets.

The senior members of the team have worked with the CIO, Ping Jiang, at both Lehman Brothers and SAC Capital, some for over 15 years. During this period the team successfully navigated multiple global crises including Asia crisis, Russia crisis, Brazil devaluation, Argentina devaluation amongst others.

Jason Brandt
Maples Fund Services

My name is Jason Brandt, I am with Maples Fund Services where I am the Regional Head overseeing the Americas. We are an administration and consulting firm providing support and services to hedge funds, private equity funds and family offices. We have approximately \$40bn under administration currently and service our clients around the world through our offices in Hong Kong, Singapore, Dubai, Dublin, Luxembourg, Montréal, Cayman and New York.

Jonathan Barlow
Eaglewood Capital Management

My name is Jon Barlow, and I founded Eaglewood Capital Management in 2011 as the first asset management firm exclusively dedicated to investing in small balance loans via online lending strategies. Last year, we launched our first fund, Eaglewood Income Fund I, which pioneered the use of leverage in the peer-to-peer lending asset class. We put together the first warehouse line of credit in the asset class, and in September, we closed the first ever securitization of peer-to-peer loans.

Our fund is up 13.2% year-to-date as of October 31, 2013. About two months ago we launched a new fund with a single investor that we have not yet publicly announced, but it is also focused on investing in small balance loans through online lending strategies.

Bob Kim
Visium Asset Management

My name is Bob Kim. I am Portfolio Manager and also Director of Research for Visium Asset Management. Visium is a multi-strategy asset management firm with \$5bn AUM across several funds. We have a primary focus in fundamental equity long-short. The firm was started in 2005 by Jacob Gottlieb, our Managing Partner and Chief Investment Officer. Today we have about 135 employees with a satellite office in London.

Byron Baldwin
Eurex Clearing

My name is Byron Baldwin, Senior Vice President, OTC Clearing for Eurex Clearing based in New York. I work with both the buy side and sell side in North America with regards to Eurex Clearing's OTC clearing offering, EurexOTC Clear.

Eurex Clearing is Europe's leading CCP clearing house, processing gross risks valued at almost EUR 8.5tn every month, with fully-automated, straight-through post-trade services for derivatives, cash equities, repo and fixed income transactions including the clearing of bilaterally agreed off-exchange transactions.

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Bob Kim: Our focus is to drive performance through stock selection, both on the long and short side of the portfolio. That is where our mandate and our core competency lies.

The environment has been very good for us in the last two years. 2011 was a tough year where macros really drove a lot of the performance and correlation was very high. Since then correlation has come down and continues to stay low. We are very bullish about the prospects going forward - even if the market does go down or go sideways, fundamental stock picking on both sides of portfolio is working. That plays very well into our strengths.



The other specific opportunity I wanted to point out is the relevance of tax-efficient investing. I run an equity long/short fund but it's also tax-efficient. Why is that important? As we all know, tax rates are going up and if you are a taxable investor, taxes have become the biggest factor of your investment returns.

Investors typically tend to focus on any fund manager's net-of-fee returns, but in fact it's the after-tax returns that really counts. Depending on what state you live in current tax rates could go higher than 50% and therefore considerably eat into investment performance. The fund that I run is first and foremost focused on generating good gross and net-of-fee, hedge fund like returns, but then I think about how to structure positions and manage positions without changing the economic view or the investment strategy in order to get the best after-tax outcome for our investors.

To exemplify this, our fund this year is up 16% net-of-fees YTD, but the effective tax rate is just 17% for our investors in that fund.

Jim Robinson: I agree completely about the taxes. You have got a 50% drag from the tax system, that's an easy factor to identify, and then the question comes up how you mitigate it.

We have a term that was coined by Joe Taussig, who is one of our partners, called "structural alpha". Structural alpha is the effort to use your structure to preserve returns and amplify them to the extent possible. When we set up reinsurance companies sponsored by hedge fund managers - I'll use one that we have in market right now as an example who has generated about 9.2% per annum over the last 16 years - the hedge fund manager will get a two time multiple premium to capital. We are setting up the structure in Bermuda, so we are very tax-efficient. The corporate tax rate is zero and we are anticipating 20% ROEs on a tax-deferred basis for investors, and that completely qualifies the reinsurance company because the way we run it.

We also had the opportunity at the recent Opalesque Connecticut Roundtable to highlight how structural innovation can preserve and amplify returns, even in a generally high tax environment.



David Tawil: The majority of our holdings, 60% of our net-asset-value at any point of time, are core, long holdings that are typically held for 18 to 24 months. That means we are very much focused on achieving long-term capital gains.



As I alluded to in the introduction, we have been focused on post-reorganization and turnaround equities. We are in a low default rate and low interest rate environment, and the bulk of corporate maturities don't kick in until 2016-2017. Therefore, the fixed income asset class is not very interesting at this point in the economic cycle. We think that the Fed has provided for a very bullish environment for at least another 12 to 18 months from now, and although there will be pullbacks at times, the fixed income market should experience increasing shock and tremor as time goes on and interest rates begin to grind higher.

Maglan plays across the capital structure; our mandate is flexible and, therefore as we near the corporate high-yield maturities of 2016-2019, Maglan will increasingly shift its focus and the bulk of the portfolio toward the debt side of the world.

David Tawil

For example, three years ago, our fund was 80%-plus concentrated in debt. Some restructurings were almost purely financial and the embedded value was unlocked quickly. For other investments, the bankruptcy unlocked some value, but there was still a fair amount of additional value to be gained from the operational turnaround that was to come and, in many instances, is still occurring. In those situations, we have held our position through bankruptcy, taking equity and adding and continuing to be invested while the operational turnarounds continue.

David Tawil: In addition, in many turnaround investments, there are numerous technical events that can unlock value. For instance, one of our larger investment positions is the equity of Metro-Goldwyn-Mayer (MGM) Studios. Prior to going through Chapter 11 in 2010, the movie studio hadn't produced a film in two years. Since coming out of bankruptcy, the equity has traded privately, over the counter. The company has executed on a sensational operational turnaround. Now, we are waiting for an IPO, the remaining technical hurdle, and we have ridden the equity from a cost basis of about \$20 a share to a current price of \$69 a share, and fair value is probably somewhere in the \$90s, even if you don't get to the very highest valuation multiples in the industry. We see a lot of opportunities like this one.

We have a pretty programmatic investment outline. We look for companies that are substantially undervalued vis-à-vis their peers and stabilizing or growing revenues with CapEx and other expenses that can easily come down, resulting in growing cashflows. Once we are dealing with growing cashflows, we identify the events that will unlock that additional value that is not represented in the current price. As long as the cashflows are growing, we are essentially getting paid to wait while those events develop and materialize. The strategy is applicable to equity and debt investments; our debt investments are always taken with the assumption that we'll convert our holdings into equity of a restructured or reorganized entity. That is our approach, repeating it over-and-over, and it's worked very well for us.



Ambrose Paxson: We are a Global Macro Manager biased towards Emerging Markets. The two markets we currently find most interesting are China and Latin America. The Team has been doing extensive research in China Fixed Income, currency, and equity markets over the last five years and has been benefiting from many trading opportunities there. For example, in 2009 China was up over 20% before global markets started to rally providing a clue to a broader



market rally. The PING Exceptional Value Fund finished up over 190% net that year. Since then, China has become a much more difficult market to trade and the Team has generally become cautious on the equities. Currently our China equity trading focuses on sectors like energy and financials.

Our original background going back to our days at Lehman Brothers was in Latin American currencies and fixed income. This region is also an area of strong focus at PING Capital. Our expertise trading these markets allows us to take advantage of a wider range of investment opportunities in fixed income, foreign exchange and equities. Currently we have seen some interesting relative value trades in Brazil, Mexico and Argentina.

Our view as we go into 2014 is increased market volatility and securities selection will be key factors when looking for economic value on the long and short side and we need to be positioned to trade them nimbly.

Jonathan Barlow: When it comes to alpha generation, our firm was really set up to exploit disintermediation opportunities in the traditional bricks-and-mortar banking system and to create alpha that is uncorrelated to most strategies in the alternative investment space, which is why our focus is to invest in loans that have very small average balances.

In our peer-to-peer fund, the average loan size right now is approximately \$13,000, and there are over 9,000 loans in the portfolio. Right now loans of this size, not just in the consumer unsecured space but also in the auto space, the small business lending space and many other credit categories, are completely ignored by traditional financial institutions as well as large institutional investors.

We have found that there is an opportunity to achieve high yields with short duration while maintaining solid credit quality in this asset class and we have been able to efficiently assemble large portfolios of these loans through online lending technologies.

Five to seven years ago, we didn't think it was possible for an institutional investor to assemble a portfolio north of \$100m in small balance loans. Technological changes over the last few years have made it possible to originate and acquire these loans in a very cost-effective manner that simply wasn't possible five to seven years ago. If you look at the traditional, bricks-and-mortar banking cost structure, these institutions will spend 5% to 7% of the principal balance of the loan in origination on general overhead, regulatory, and other costs.

We think the online lending industry can originate loans for less than 2%, so there is an arbitrage effectively built into this asset class that we think is reminiscent of a lot of other credit categories that over the years have been disintermediated. Just look at high yield bonds in the 1980s or commercial mortgages in the early 1990s. These were assets that traditionally were not owned by large institutional investors, and we believe that going forward small size loans will increasingly be owned by institutional investors who currently have practically zero exposure.



Jonathan Barlow

Which is why we believe there is a lot of alpha to be generated in our asset class. Eaglewood enhances that alpha generation through our own proprietary credit selection processes as well as with the use of leverage. We are one of the only players in our industry right now that has figured out how to apply leverage to these assets. We also think there is a lot of alpha and value to be created through the structuring process with the online lending platforms through which we acquire loans. We negotiate concessions, legal protections and rights that are unique and proprietary to our firm.

Byron Baldwin: Over the recent years, global markets have seen many far-reaching regulatory changes. Mandatory OTC clearing for IRS and credit under Dodd Frank is now in place in the U.S., and now the focus will shift to Europe and OTC clearing in Europe. One of the biggest challenges for the buy side with the introduction of OTC clearing is having to provide collateral for initial margin on a daily basis. EurexOTC Clear accepts a wide range of eligible collateral, governments, corporates, equities – over 25,000 ISINs – to meet margin requirements. From May 2014, EurexOTC Clear will offer the cross margining of Eurex-listed derivative products and IRS which will give the buy side significant margin and collateral efficiencies. We are currently offering all buy side firms to send us portfolios of listed and IRS positions so they can see the margin efficiencies they will achieve with cross margining.

EurexOTC Clear offers an innovative and unique interim participant facility whereby if the buy side firms' Clearing Member were to default, then Eurex Clearing would give the buy side firm its own clearing membership and mnemonic that would allow the buy side firm to meet margin direct with Eurex Clearing and, more importantly, to continue trading IRS for up to five days. This gives the buy side invaluable time to arrange the porting of positions to a new Clearing Member.

The default of Lehman Brothers in 2008 taught us the lesson at Eurex Clearing that client asset protection is extremely important to the buy side. Eurex Clearing became the first CCP globally to introduce individual segregation of client assets in listed derivatives in 2011, and this is a cornerstone of EurexOTC Clear, our OTC clearing offering. It gives the buy side maximum protection of client assets against a Clearing Member default with client assets fully segregated from those of the Clearing Member – providing protection of actual collateral, not by value.

In fact, whilst other CCPs are now looking at introducing individual segregation for the first time – providing individual segregation by value is a regulatory requirement for OTC clearing under EMIR in Europe – Eurex Clearing has already upgraded the individual segregation offering with an innovative client asset tagging system. So now Eurex Clearing can either offer full segregation of client assets on a per fund basis or with collateral tagging, an omnibus fully segregated collateral account with collateral tagged for each specific fund. Also, after listening to feedback from the buy side, Eurex Clearing recently introduced the option of direct collateral transfer to the segregated collateral account rather than transferring collateral via the Clearing Member, thereby significantly improving operationally the whole collateral transfer process and also eradicating transit risk.



I would also like to add that EurexOTC Clear currently has an onboarding fee incentive program that if a firm onboards to EurexOTC Clear by 31 December 2013 they would pay no clearing fees for IRS until January 2016 – that's a great saving for the buy side.

Byron Baldwin

Eurex Clearing also provides a unique Securities Lending CCP offering which mitigates counterparty risk in the bilateral securities lending market. Eurex Clearing's Lending CCP offering does not disrupt the bilateral relationship between beneficial owner/agent lender and the broker dealer. Bilateral securities lending transactions are novated currently by way of Pirum Real Time Service, Eurex Repo-Sec Lend and SL-x to Eurex Clearing. All post trade functionalities like corporate actions, loan deliveries, recalls etc are handled by Eurex Clearing. Through a tri-party collateral agreement and a unique special lenders' license, the beneficial owner has clearing membership of Eurex Clearing's Lending CCP that does not require daily margin payments or contributions to the Default Fund. Finadium recently produced a paper entitled, 'A Cost/Benefit Analysis Roadmap for Securities Lending CCPs', I would thoroughly recommend everyone at this roundtable to read it; it shows the real benefits for both the beneficial owner and broker dealer of a securities lending CCP.

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Jason Brandt: The market has changed significantly in the consultancy and fund administration industry as well over the last couple of years, and we feel there are many opportunities available with the number of changes have taken place. For example, the consolidation of firms through acquisitions has slowed recently, but it takes a couple years to complete a full integration, especially with some of the larger institutions. During the integration period, there are service disruptions and system changes that impact existing clients of the firms involved. This disruption provides firms like ours with an opportunity to present our servicing capabilities and high level of client attention and service. Another example would be the all the regulatory requirements that have come into effect or will be coming into effect in the near future (i.e. Form PF, AIFMD, FATCA, etc.). Many investment managers do not have the expertise or technology internally to handle all the regulatory requirements and filings. We are able to support our clients with their filing needs and can help provide them guidance on the various regulatory filing requirements.

Due to the all the regulatory changes and the further development in investor requirements, the barriers of entry for smaller managers have increased dramatically. Many of the smaller managers are failing the due diligence being done by institutional investors because they do not have an “institutional infrastructure”. We view this as an opportunity to help smaller asset managers and give them the guidance and the technology to help them pass these types of requirements being imposed on them by prospective investors, which will ultimately help them raise capital.



Greg de Spoelberch

Jonathan, online lending is a new and interesting sector. I was wondering, what are the barriers to entry in the online lending industry?



Jonathan Barlow: Well, I think it is easy to start an online lender, but rather difficult to start a credible one. You need significant balance sheet capital even if you are not holding onto the credit risk to support a real origination and servicing operation that would attract capital from institutions such as ours.

The creation of the CFPB (Consumer Financial Protection Bureau) and other regulations that have come into play over the last five years have caused the regulatory barriers to entry become fairly significant and they will likely increase over time.

Greg de Spoelberch

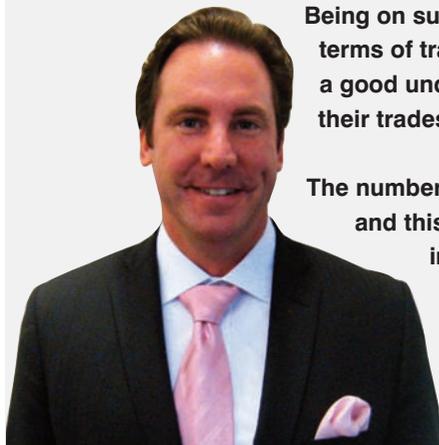
What trends and preferences do you see at the investor side? Any observations on investments flows? What are investors demanding today?

Byron Baldwin: The buy side wants efficiencies and maximum client asset protection. The default of MF Global and the Peregrine Financial Group showed us all how important client asset protection is. Maximum client asset protection for the buy side is a ‘must have’ not a maybe. EurexOTC Clear provides maximum protection to client assets in a Clearing Member default with its individual client asset segregation offering.

It is difficult enough for the buy side in the current financial market conditions to generate alpha, so the buy side wants efficiencies in the new mandated OTC clearing world I talked about. EurexOTC Clear will give significant margin and collateral efficiencies to the buy side with the cross margining of listed and OTC products.



Jason Brandt: When it comes to investor inflows, we see that the overall amount of inflows are smaller, and they are not coming as quickly or frequently as the managers would like. The barriers of entry continue to be very high for smaller managers. Our firm is offering an emerging manager platform to give new and smaller managers strong operational support so that institutional investors are more comfortable in allocating capital to them. But again, depending on a manager's size, there are restrictions for institutional investors because they generally do not want to own greater than 5-10% of a fund.



Being on such a platform helps managers deliver to their investors exactly what they need in terms of transparency, monitoring and risk attribution. It allows investors to generally come to a good understanding about what managers are doing with their portfolio and what is driving their trades and their returns.

The number one demand investors have and managers need to comply with is transparency, and this can be defined in a couple of different ways. Depending on the type of strategy, investors will look at various concentration levels, for example, by position, industry or sector, geography or currency, etc. The frequency could be as much as daily – however the data will mostly be given on a T+1 basis. The managers generally are not giving out their trades in real-time, unless in a rare case it is a requirement of a separately managed account.

Greg de Spoelberch

Your firm interfaces directly with some public pensions, right?

Jason Brandt: We work with several multi-billion dollar pension funds, which has given us an unique perspective that influences how we approach our solutions for managers as well. Not only do we provide traditional administration services for public pensions, but we also do data aggregation for them. One example of our services for a public pension client where we don't actually provide administration for their entire portfolio of funds is our comprehensive monthly board report. We obtain all pension's underlying positions from the managers or administrators directly, aggregate the data and produce a report with various risk analysis to give an accurate picture of all positions.

After everything that has happened through the financial crisis, it has become vital not only for institutions but really for all investors to understand where their concentrations are and how much has been levered on top of that.

We also find that investors have interest in emerging managers – the appetite is there, and investors are looking for alpha and new ideas. If they are investing in an emerging manager they want to make sure the manager is running his strategy in accordance to the prospectus or offering memorandum.



Greg de Spoelberch

Bob, with \$5bn your firm is of course far beyond the emerging manager category. What can you share about your investor base and what they are demanding?

Bob Kim: Our investor base is about one third institutional, so endowments and foundations, and more and more state pension funds. Then we have about a third high net worth, multi-family and single family offices, and the last third being primarily fund of funds, which as we all know have been shrinking as an industry, but the kind of last survivors are the best in breed fund of funds and turn out to be very good partners in that sense.

Let me add a few comments about the startup hedge fund managers. I believe there is an element of cyclicity around start up managers, and that cycle seems to be improving. In other words, after 2008-2009, investors are looking now downstream for more riskier managers that can generate more alpha or more performance and take more risk. The investor appetite for risk taking has certainly improved, and some institutional investors are looking to invest with smaller managers. However, even with good performance with good pedigrees, a lot of managers still have a tough time because they just can't scale, while the cost of running a fund is much higher today than it was four or five years ago.



So, a number of managers are increasingly looking to join a larger platform that gives them the backing of an institutional infrastructure and allows them to focus just on the investment strategy. I believe that this pressure and this structural trend isn't going to change but only continue to bifurcate the market, and we will see more of these kind of mega funds that aggregate different investment strategies and package them up for investors. But again, from the cyclical aspect investors are definitely increasing their appetite for small managers.

David Tawil: We are aware that Maglan is most appealing to investors who have discretion over their own capital or the capital that they manage for others, and can therefore allocate to an emerging manager that has generated outsized returns; we are not necessarily a box-checker friendly strategy. Our conviction and resulting concentration is substantial at times (within definite limits). Furthermore, although the volatility has not been amplified lately, I have to represent that we have gained 40% for each year, two years in a row, which, for a particularly institutionalized investor, could be as bad as saying “we are down 15% year to date.”

At this point in our evolution we are clear about who we are as a fund, and thankfully, there is enough precedent in terms of what we do. We've been attracting allocators who were early stage investors with the likes of other fundamental, value- and event-driven, concentrated, sometimes activist, managers (Appaloosa, Greenlight, Pershing Square, Third Point, Icahn, W.L. Ross). Of course, we can only hope to be as successful as any one of those managers one day. But the investors also seem to understand that even though those managers continue to be extremely active and enjoy an extremely high profile – while we are not necessarily extremely active or extremely high profile – many of those managers are more in the asset-gathering phase of their careers than in the asset-managing phase. Needless to say, laying the seeds for later, more institutional investors is important too, and we focus considerable resources there as well.



Greg de Spoelberch

Jonathan, you also started out in a very new and niche strategy and probably had to do a lot of education and communication around it, no?

Jonathan Barlow: Absolutely. When I founded Eaglewood Capital over two years ago, very few people knew what peer-to-peer lending and online lending was. A lot of the marketing process focused on educating investors on the asset class. However, over the past twelve months and in particular over the past six months, I have spent the majority of my time speaking to investors who already have exposure to the asset class or have already done substantial research, and fortunately, many have come across our name and reached out to us proactively.

So whereas one to two years ago I spent 80% of my time educating investors on what peer-to-peer and online lending

are, today I probably spend 10% of my time doing that. That has been a very nice change, and it makes our marketing efforts much more efficient now, considering that the asset class in which we operate was traditionally a retail asset class, if you go back five or seven years.

Over the past year you could also see a number of high profile investors and figures get involved in the space. For example, at the end of September, BlackRock announced that they were taking an equity position in Prosper, which is the second largest peer-to-peer lender, and BlackRock also started investing in Prosper loans. We were able to successfully complete the first securitization of peer-to-peer loans which I believe went a long way towards bringing more credibility to the asset class in the eyes of institutional investors.



Then you find people like John Mack, the former CEO of Morgan Stanley, who is now on the Board of Directors of Lending Club. Another key turning point in the industry took place this spring when Google purchased a large stake in Lending Club, the largest peer-to-peer lender, which valued the company at \$1.6bn. This also turned a lot of heads, and again, helped to institutionalize the asset class.

Our firm has been a beneficiary of these developments, particularly on the capital raising side. The majority of our capital is from family offices and we also have some fund of funds money, a foundation, and now, interestingly, a large regional commercial bank has opened a separately managed account with us. That means institutional money is on its way in to this asset class, it's the first inning and obviously there is still a long way to go in terms of penetration, but the seeds have been sown and institutional funds will continue to find their way to this asset class.

Ambrose Paxson: We started in 2008 and obviously that was a tough year. We had a large fund of fund investor that had to redeem due to their clients redeeming from their funds. We reorganized the team and focused on day-to-day operations and money management without much marketing effort. At the end of that year of '09, the PING Exceptional Value Fund (PEVF) was up over 190% net and then up 105% in 2010, without many new investors.

In 2010, we launched PING Emerging Market Macro Fund (PEMMF), which was more diversified and offered better liquidity terms preferred by institutional investors post the 2008 crisis. We hired a dedicated Chief Risk Officer who monitors the risk daily. The advantage of PEMMF has become apparent in choppy markets. Last year, PEMMF was up 16.92% net and PEVF was up 8.90% net. PEMMF now has a three year track record. We believe this fund is well suited for institutional investors needs and is scalable to \$1.5 – 2bn over time.



Greg de Spoelberch

Let's look at regulations and how they affect all of your businesses. Is there also opportunity for managers and/or investors when it comes to regulations?

Jason Brandt: Yes, we do view regulations as an opportunity. For us it's about how we can support your business and come up with creative ways to institutionalize it without you having to outlay the capital to do this on your own. I think managers today are looking for the right strategic partners that help them to navigate and comply with the changing regulatory environment – things like Form PF, which already happened, or AIFMD that is now coming to market if you are marketing into the EU, or initiatives like the Albourne open protocol regime that appears to getting more traction.



By being the administrator we have a lot of the information already, we have your portfolio and transaction information, and we have all the information on your underlying investors. So whether it's Form PF or FACTA with regards to the U.S., we can provide and support the information required for those filings and we help provide the guidance and technology to help with the filing needs of our clients.

Jonathan Barlow: I won't focus so much on investment advisor regulation, but rather, the regulation we see in the lending markets. We very much view our strategies as beneficiaries of regulation because they tend to create more inefficiency and less access to capital, particularly for small borrowers.

Let me give you some examples to show you the magnitude of what I am talking about. We recently we saw an announcement from Chase that due to regulatory risk and the Consumer Financial Protection Bureau (CFPB) cracking down on Indian tribe lending (which we don't do), Chase will be pulling out from a lot of their specialty finance warehouse lending activities to the tune of 10s of billions of dollars. In the last day or so we saw another announcement from Chase that they are pulling out of student lending.

In 2014, due to Dodd-Frank, we will have substantially tighter mortgage regulations, with much higher income verification requirements for mortgage originators. All of this regulation supports what I call "alternative lending", of which online lending is a huge part. We believe this increased regulation will actually fuel the growth of the alternative and online lending industries, creating better risk adjusted return opportunities for those who can legally and ethically find efficient means of lending to borrowers, particularly small-ticket borrowers.



Byron Baldwin

In the new capital constrained world of Basel III, capital efficiencies are going to dominate. Eurex Clearing offers a unique integrated clearing service across listed derivatives, OTC, securities lending, repo/GC Pooling that gives significant operational and capital netting efficiencies. Our re-use GC Pooling collateral for all GC Pooling baskets for cash provider activities for meeting listed and OTC margin requirements show how an integrated structure can provide such efficiencies and reduce capital funding costs compared to a silo'd CCP. Cross margining of listed and OTC products also generates significant capital savings and our individual client asset segregation offering carries a low regulatory risk weighting capital requirement under Basel III.

Jim Robinson: In my view, the biggest change in regulatory regime is the JOBS Act. I don't believe the JOBS Act has been fully understood or exploited yet. While everyone seems to be watching the mega players and the mega trends of federal government, federal regulation or tax issues, it seems some players like Eaglewood have tapped into a lot of what's going on down in the weeds and were able to aggregate many small investors into large numbers. I find this interesting, because there has mainly been a lot of noise on JOBS, but very little activity.

We are working with a digital agency that's actually owned by one quant manager, one of the founding chief marketing officers of TheStreet.com, and what you can actually achieve online in terms of identifying your credits is scary. So put down your mouse, go away and have a beer because you don't want to know what we can tell about your consumer demographic. While this is still in its very early days, I think that field will ultimately have a lot more impact than a lot of the high level regulation.

If John got it right, a lot of the high level regulation is constricting markets and activity at the high level, but that's

driving a lot of innovation in the middle and at the bottom. But in general, these developments are initially hard to see. You have to get into it, get out there, start being in the bushes and really try a lot of new things.

One of the things we haven't touched on yet is the drive towards 40 Act Funds, UCITS, and so on. Also on that side a lot of structural innovation is occurring that will bring all sorts of new flavors of assets and strategies to new kind of investors. My recommendation is to watch this space. When we will come back in a year for a 2014 Roundtable, we will have probably seen a lot more activity on that level and around JOBS.



Greg de Spoelberch

Jim mentioned 40 Act and UCITS as new fund formats. Is anyone of you working on new funds or new products or services?

Jim Robinson

Can I ask one question? Does anyone have any idea of going into other vehicles other than fund vehicles?

Greg de Spoelberch

You are referring to your reinsurance vehicle that is offering a new structure for fund managers?

Jim Robinson: Correct, forming a reinsurance company where the asset manager or hedge fund gets to run all of the assets is another innovation that by now has been validated by a number of large and successful players. I believe the smarter managers can now look at and study this, as many of the big guys have recognized this earlier and developed such a platform with dozens of different products and opportunities for aggregating assets. Running your assets through a reinsurer is an alternate structure and thus one of the different sources of innovation for addressing different markets and different capital or investor sources. It offers a lot of benefits for investors and managers, for which such a structure represents true permanent capital.



As we have discussed, the hurdle for a manager to attract early capital is very high, people tend to bet on the bigger houses before they bet on the small guys, though I do think the cycle is changing. In the light of this, we do see a bigger flow of younger and younger managers trying to access those other pools of assets through innovative structures, because it's getting so difficult to attract capital from the more traditional fund allocators.

David Tawil: Setting up a reinsurance vehicle is quite interesting. Some of the most generally ambitious managers have paved the way: Greenlight Re, Third Point Re, SAC, Paulson, and so on.

In considering a reinsurance vehicle, Maglan's take on it could move the endeavor to a new level, and it's in that context that we are discussing options with Jim and his partners. Steven and I have always been an innovative and entrepreneurial duo. For example, while we were at Credit Suisse, we created a trade receivables protection business – essentially, CDS being sold to your average supplier to a broken company like J.C. Penney or Sears, as a proxy for insurance. Those counterparties cannot transact in CDS because, among other things, they desire an odd lot in terms

of their receivables balance and/or they need an odd lot of time, like the next four months, because it's holiday season and that's when their high balance is reached, which causes them to lose sleep. Frankly, we started this business by banging phones and urging people to insure their risk, so to say. It was executed in the form of a financial product as opposed to an insurance product. The product soon became an integral part of the arsenal that a credit manager uses to protect against high-risk customers.

Since leaving Credit Suisse, we have continued the receivables business outside of our fund, and we have made some forays into converting the business to an insurance product. There really is no comparable insurance or factoring product- a single-name, non-cancelable, customizable accounts receivable insurance product, available primarily on high-risk credits.

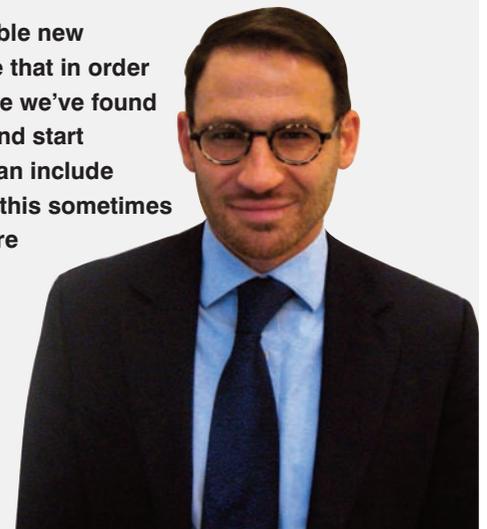
Jim and I spoke only a couple of days ago, and Maglan would consider creating a reinsurance vehicle, which would offer, among other insurance products, trade receivables insurance. In substance, the two businesses (event-driven, distressed investing and high-risk receivables insurance) have a lot of synergies. And in the reinsurance vehicle, as opposed to just being a vanilla reinsurance entity, we will execute some interesting and very accretive transactions in the form of trade credit insurance, a business that we know and love dearly.

Let me also follow up on Bob's comment regarding research. The investments we focus on are often off many funds' radar screens. We often find the best opportunities when there is scant to no sell-side research.

Steven and I used to work at Credit Suisse in Leveraged Finance sales and trading. Since 2008, throughout the industry the available resources on the sell-side have been chopped enormously. The Volcker Rule resulted in a lot less revenue generated from proprietary trading and inventory trading. Furthermore, there are simply not enough proceeds generated from sales and trading in high-yield, distressed, fallen-angle and post-reorg equities to pay for lots of research analysts. This has resulted in a dearth of research coverage, which leaves those willing and able to do the work with a lot of opportunities; and, I don't think that this will change any time soon.

Because of the limited sell-side research, the opportunity comes with considerable new responsibility. In contrast to environments that existed in past cycles, we believe that in order to unlock value, a manager must be a great cheerleader for its investments. Once we've found value that nobody else has seen, and we've invested, we need to get out there and start trumpeting really loud for people to recognize the same value that we do. This can include sounding out in the press and other media outlets that we access. Also, frankly, this sometimes includes sharing our work, so that others don't have to reinvent the wheel and are more likely to take the time to focus on the opportunity we're presenting.

The mega names and structures will always be covered, but the next tier down may not necessarily be, and because of our asset base, we can afford to concentrate on those and try to make some outsized returns there. All this comes as a consequence to the changed regulatory environment, which has created opportunity in situations that are not well-covered.



David Tawil

I pointed out before that there is not a lot of distressed debt these days, but when eventually the tide comes in, there is the possibility that it will be a tidal wave. Financial professionals have been predicting the "maturity wall" for some time; it will come because interest rates eventually have to rise and challenged borrowers will have to deal with debt maturities in a rising interest-rate environment. I think that between 2016-2019 we have a good chance for the 100-year storm, and the sell-side will be inundated with names. We could be facing a scenario where the sell-side won't be able to keep up with the volume of paper that will come to market.



Jason Brandt: Jim predicted a lot of activity following or around the JOBS Act. That act seemed more politically-driven than regulatory-driven. But, in doing so, a number of unintentional consequences were created, because the barriers are still there or have in fact gone up with regards to the investor validation verification, Bad Actor rules, disclosure stipulations, things of that nature. Who is going to be doing that? That could be a potential new product. The question is what's the pricing point for that, what are people willing to digest with regards to the pricing to have access to that investor base, and how much does that really give you as an investor?

Jim Robinson: There is a flip-side to that in the angel networks. The angels themselves want to get accredited or verified, so there is the cottage industry of people doing the verification for the individual, so they can get involved with more and better deals. And the pitch to the angels is saying “don't get locked out of a deal because you're not verified.” So it's interesting to see both sides of the equation and a big opportunity.



Jason Brandt

I think so as well. In the internet you find now more and more of those capital raising sites. We are looking at those as a possibility and valid opportunities.

Greg de Spoelberch

Jon, are you thinking of doing both sides on this intermediation? That is, can you use the crowd funding vehicles to resell your offering as well?



Jonathan Barlow: Yes, it is an interesting idea to sort of “resell” through the crowd funding vehicles. We have certainly discussed the mechanisms of how to do that with a relatively small team in order to take advantage of some of these opportunities right now.

Coming back to new products, about six weeks ago we launched a new fund with an anchor investment of \$20m from a large family office, SF Capital. We haven't announced details about that vehicle yet, but what I will say, generally, is that we are now seeing many online lending companies receive significant funding and very high valuations from the venture capital community. We have seen few funds that are focused on investing in this space, so we have created a private equity vehicle that will primarily invest in credit and loans like our first fund, but also has the ability to receive equity stakes in the platforms through which we are purchasing loans. The aim here is not only to achieve superior risk adjust returns on the credit side, but participate in the equity upside from this industry.

Jim Robinson

Are there any conflicts of interests here? That killed a bunch of the hedge fund guys in '07 because all the big hedge funds wanted to take pieces of the originators they funded. And when the crises occurred, they found themselves on both sides of the table. This trade looks good when everything is going up, it really hurts when things fall apart as you cannot represent your investors and the loan originators at the same time.

Jonathan Barlow

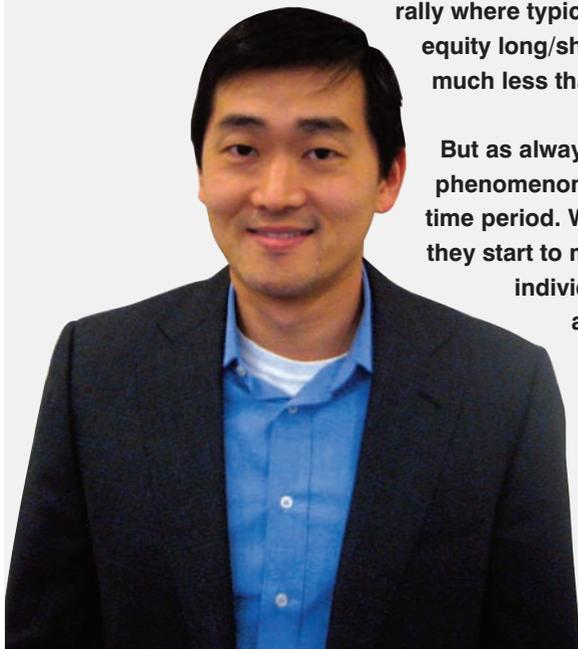
Well, I think we are luckily in the first inning of this phase, so hopefully we will have the foresight to get out before that happens.

Bob Kim: We have two funds open that we continue to build out, one is the tax-efficient equity long/short fund I run. This one is our newest fund and will complete its three year track record this year, so that is a big and exciting milestone.

The other fund that we're focused on is our multi-strategy, multi-manager fund which is comprised of over 35 investment teams with a primary focus on equities. The philosophy or focus of that fund is – going back on how the industry is getting restructured at the moment – that smaller portfolios tend to generate more alpha because you are more nimble in getting in and out of markets.

With prop desk shutting down, some of our larger peers sizing up to having managers run at least a half a billion or billion dollar kind of portfolios and smaller managers not able to stay afloat, we see actually fewer people than ever dedicate to this sweet spot and being able to run such portfolios. So for us, it is a very good hiring environment to aggregate those strategies into an investable fund for institutional investors where we risk-manage and capital-manage that process. We are also very excited about that product and think we can grow this fund to \$3-4bn in assets, it is currently at about \$1.5bn.

From a strategy perspective, I believe the short side of the portfolio can be particularly interesting going forward. So far 2013, the short side has caused a lot of frustration for long-short managers. With the markets going straight up not only has shorting not worked, we also found that the top 50 most shorted stocks in the S&P 500 have actually outperformed the S&P by 20% this year. These things typically happen in a market beta rally where typically all junk stocks rally. That by the way also explains why the average equity long/short fund is up only 10% for the year net, or whatever that number is, so much less than the S&P.



But as always you need to look the additional step ahead. We did a study on this phenomenon, looking back at the last 25 years across multiple cycles in a 12-month time period. When the most shorted stocks outperform by this much, then typically they start to mean revert drastically. So we think this is a very good time to select individual stocks, particularly the ones that really routed like the junk stocks at that rally.

Another strategy change we may see soon is a change of investor sentiment towards valuation. I believe valuation with growth potential will be an important indicator going forward. So far this year, valuation was not an important factor, in fact it was a negative factor, for example as I mentioned on the short side. If you thought stocks are overvalued and you shorted, that was a terrible way to invest. So again, the short side of portfolio we think is a very good opportunity going forward.

David Tawil: With regard to loan-to-own investments, we normally catch paper sold by high-yield investors, so we are constantly watching the activity and development of high-yield investing.

For the past 10-plus years, high yield has been a successful trade. Bill Gross (PIMCO) has been crying the blues for a number of months and I don't think we have even started to see the eventual tectonic shift in that segment of our industry. When interest rates begin to rise meaningfully once unemployment comes down, we are going to get not only tapering, but we are going to get upticks in real rates and it's going to be a very challenged world for high-yield investors for a while. Only the most sophisticated high-yield traders will prevail.

What that means in terms of what we are doing is that we don't have any investments that are very interest rate reliant or sensitive; for instance, we are not in any real estate related investments. We'll just have to wait to see whether the Fed is able to manage the transition smoothly or whether the interest rate rise leads to calamity.



Jonathan Barlow: We are also of the view that rising long term rates pose a systemic risk, and as a result we have positioned our strategies around very short duration assets that also happen to have high yields because of the inefficiencies of the asset class in which we participate. Our P2P portfolio right now has an average duration of 15 months, and yet, year to date we are up in the teens on the portfolio.

We believe there are a lot of investors, who despite this macro-view, still need to earn income and still need to earn yield, and we believe that considering an allocation to a small loan portfolio is a great option. Through our securitization we were also able to fix the interest rate on a portion of our borrowings. We own short duration assets and on the liability side of our funds' balance sheet we have fixed the cost of debt on a majority of our borrowings. We think we are well protected at this point.

We have created our own valuation model that we use to evaluate loan portfolios offered for sale by third parties, and our auditor has guided us how we should use that same model for marking our portfolio to market.”

Our new fund, which we will publicly announce in the next few weeks, is structured as a private equity vehicle, but with a very short capital call and reinvestment period. We will also use credit valuation models, but there investors won't be coming in and out at NAV on a monthly basis.

We have been a buy and hold investor so far, but we think that a secondary market for these assets is developing and that the asset class will become increasingly liquid over time.



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