OPALESQUE

Opalesque Round Table

ZURICH

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Introduction

Dear Reader,
The mission of our unique Opalesque Roundtables is to offer insights and intelligence from the most important global hedge fund centers.

I want to welcome you to our first Opalesque Roundtable in 2009, which took place on February 26th in Zurich, or to be more precise, at the Man Group/ RMF's offices in Pfäffikon. The following prominent guests from the Greater Zurich region were part of this event, which was sponsored by Taussig Capital:

1. **Frederic Berney, Chief Risk Officer, Harcourt Investment Consulting**
2. **Christopher Brodie, Co-founder and senior fund manager, Krom River**
3. **Jaime Castán, Head of Hedge Fund Research, RMF**
4. **Uwe Eberle, Head of Institutional Relationship Management, Member of the Management Committee, Man Investments**
5. **Alexander Ineichen, Managing Director and Senior Investment Officer, Alternative Investment Solutions, UBS Global Asset Management**
6. **Prof. Dr. Peter Meier, Zurich University**
7. **Jim Mitchell, Senior Managing Director and Co-founder, EWM Global**
8. **Dr. Christian Raubach, Managing Partner of Wegelin & Co. Private Bankers**
9. **Philippe Pillonel, Managing Partner, Constellation Capital Advisors**
10. **Ernesto Prado, Co-founder and Chief Investment Officer, Areca Investment Management**
11. **Joseph (Joe) Taussig, Founder, Taussig Capital**

You will find a comprehensive update not only on the Swiss hedge fund industry, but a discussion on hot topics such as how Sharpe ratios can fool investors, why investors still shun managed futures, a discussion on the value of transparency and risk factors, and more:

Do you know:
- ...which strategies and opportunities Swiss hedge fund managers and investors are pursuing in this recessionary environment?
- ...that going forward, RMF will be handling close to 80% of US and Europe L/S hedge fund investments via managed accounts?
- ...that while managed accounts are the biggest demand from end-investors, this trend could actually exacerbate the problems which may be brewing for the next crisis?
- ...how the Swiss hedge fund industry aims to rebuild investor confidence?
- ...where the Swiss regulators failed during the 2008 crisis?
- ...that there are already a couple of initiatives within the Swiss hedge fund investor community to get together, and which interests they are pursuing?
- ...how one hedge fund manager changed the way a mainstream newspaper writes about hedge funds?

and much more... 31 pages full of real intelligence!

Enjoy "listening in" to the Opalesque "Greater Zurich" Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Participant Profiles

Standing (left to right)

Jaime Castán, Prof. Dr. Peter Meier, Dr. Christian Raubach, Alexander Ineichen, Joseph Taussig, Christopher Brodie, Uwe Eberle, Matthias Knab

Seated (left to right)

Ernesto Prado, Philippe Pillonel, Jim Mitchell, Frederic Berney

Introduction

Ernesto Prado
Areca Investment Management

I am Ernesto Prado, the Co-founder and Chief Investment Officer of Areca. Areca is very small fund of funds that was launched essentially three months ago. It's like building a house in the middle of an earthquake...but by design; about two-and-a-half years ago, ahead of the crisis, we launched our previous company with the intention to buy insurance against the exuberance in credit practices and focused on the sub-prime markets at that time.

I was a Trader at Salomon Brothers, where I restructured the derivative component of the LTCM Portfolio for Salomon in 98. I also was involved with program trading for Fidelity in Boston.

At Areca, we have $300 million in commitments, $45 of those are deployed today. We are extremely careful because - to stay with the metaphor - we are not only building a house in the middle of an earthquake, with which we are comfortable, but at the same time there are bombs falling out of the sky... and some of those bombs could hit random administrators, prime brokers etc.. The risk for active managers is still there to get into an asset freeze, from where one would have a hard time recovering.

We have been part of large organizations in the past, and today we prefer to be nimble. We firmly believe that if you have too many assets, even in the hedge fund industry, you could be doomed like the Titanic. When markets move "beyond the sigmas", it becomes difficult to steer a big fund.

Areca is deploying money today, and delivered a good performance so far, but the environment remains very difficult.

Prof. Dr. Peter Meier
Zurich University

My name is Peter Meier from Zurich University where I am heading a team of about one dozen people which deals with questions relating to alternative investments. We are very focused on the fund of hedge funds space, where we have built the database hedgegate.com which comprises all Swiss registered funds of hedge funds.

Part of our mission is to work on such issues, making the Swiss funds of hedge funds more comparably and more transparent for the end investor. For over five years now, our body is supported by the Transparency Council Funds of Hedge Funds comprising 15 leading Swiss providers of Funds of Hedge Funds

Jaime Castán
RMF

My name is Jaime Castán, I am the Head of Hedge Fund Research at RMF, the institutional Fund of Funds unit within Man Investments.

RMF currently manages $19 billion in funds of hedge funds; our company has a true global reach, not only through the global distribution of Man, but also due to our own research capabilities in Singapore, London, Pfäffikon (Switzerland) and New York. We offer the whole range of fund of funds from diversified multi-strategy to the very niche products.

We are also very proud of our new alternatives efforts, as we truly believe that in the fund of funds industry, it's not only necessary to offer products that meet the current market interest, but - as in every other industry - it is important to innovate. The companies that will succeed in the future are those that invest in innovation.

So, besides RMF's global reach and structured investment process, what differentiates us is our depth of resources and our efforts in the new alternatives space.

Alexander Ineichen
UBS

I am from UBS Global Asset Management. I have been doing research on equity derivatives in the 1990s and spent this decade doing research on hedge funds and the hedge fund industry. UBS Global Asset Management has a platform called "Alternative and Quantitative Investments", and I represent this platform.

The platform is made up of three units; one is O'Connor, a single manager business of UBS Global Asset Management, and then there are two funds of funds; one is called Alternative Fund Advisory and the other one Alternative Investment Solutions. In total, we manage, as of January 2009, $39 billion US dollars in all these three groups

Dr. Christian Raubach
Wegelin (& Co.)

I am Christian Raubach, Managing Partner of Wegelin & Co. Private Bankers. Wegelin specializes in asset management for private and institutional clients and currently manages assets of over 20 billion USD. We have over 500 employees and focus on developing inhouse quantitative strategies. Our approach to product development is scientific, and we work closely with the University of St. Gallen.

Wegelin is probably best known as Switzerland's oldest bank, and as one of the last few where the partners have unlimited liability. What is not so well known, however, is that we have a large in-house quant team that manages about 1 billion USD in single hedge funds. This makes us one of the largest single hedge fund managers located in Switzerland.

Within the alternatives area, where weekly liquidity is not the norm, we run six different strategies, which all offer weekly liquidity. We find that our clients appreciate it, especially in difficult markets.

Uwe Eberle
Man Investments

My name is Uwe Eberle. I joined RMF in 2000 and worked on the private equity side originally. In 2002 I built up the new alternatives group, and from 2004 to 2006 I was the Head of Hedge Fund Research. In 2006, Jaime took over this position and I accepted the role of Head of Institutional Sales at Man Investments.

I spent some time in the U.S., where I was involved with building our business in New York and in Chicago, and have just recently moved back to Switzerland again.

Man Investments has this office here in Pfäffikon with 500-600 people and a significant office in London, plus more offices around the world.

Man includes the fund of funds units RMF and Man Glenwood Strategies; we are also active in the single fund business with AHL, Nephila etc.

I think that part of the success of Man is that the individual investment units can really fully concentrate on investments, while Man Investments takes over a lot of the other functions like HR, product structuring, etc.

Joe Taussig
Taussig Capital

My name is Joe Taussig. We have a fairly unusual business; we partner with hedge fund managers and we create reinsurance companies and banks, where the manager we partner with manages all the assets.

It started out more or less as a hobby: fifteen years ago we did our first one, and for the first four years, we did fourteen of these. From a business perspective, these deals never topped 5% of our revenues - but if you own the company, you have the liberty to misallocate your time, and I always found the hedge fund people more interesting than the insurance people I usually dealt with. Eventually this approach has evolved into a full-time activity. The best known company we have done is Greenlight Capital Re, where we partnered with David Einhorn. It is publicly traded, so everything I say is on the record.

Since inception, this vehicle has outperformed. Greenlight Capital Re just released their numbers the day before yesterday and it has it outperformed the Greenlight funds by 5.2% per annum since inception in 2004 and it has outperformed Berkshire Hathaway by 12% per annum since inception and 10% since the IPO in 2007. One motivation for its establishment was permanent capital – it has approximately $1 billion in assets that cannot be redeemed.. As I said, it has outperformed the funds, so the investors have done well and there is daily liquidity on NASDAQ, where it trades at premium to book value.

We just picked up a mandate two weeks ago, we will be a creating a bank here in Switzerland. It will be capitalized with at least $1 billion of US of equity, maybe $2 billion.

Frederic Berney
Harcourt Investment Consulting AG

My name is Frederic Berney. I am the Chief Risk Officer of Harcourt. I have been with Harcourt for 6 years, and before I was with an investment bank where I had different positions as a risk manager developing technology solutions for risk.

Harcourt's business model has been proven now for twelve years. We are a fund of hedge funds solution provider. We have about forty mandates, which range, depending on the individual needs of our clients, from pure advisory to a full-blown portfolio management solution. In the last years we have diversified and have enhanced our commodity business unit with long only commodities products. We have also entered the market of socially responsible investments (SRI): by creating the first fund of hedge funds where all investments follow clear SRI principles.

Philippe Pillonel
Constellation Capital Advisors Ltd

My name is Philippe Pillonel, Constellation Capital. Like Areca, we also recently set up a fund, not three months ago, but ten months ago. With just ten months, we are also fairly new, but I would argue that those last ten months have been worth many years in terms of learning curve.

Constellation Capital runs a systemic global macro - we are model based, but with a clear discretionary overlay. We launched on May 1, 2008 and achieved a positive performance last year of 15.7%, so it was pretty decent. In January, we are down a bit, the markets are very volatile and I look forward to discussing, amongst other things, the volatility in the markets with this group today.

Jim Mitchell
EWM Global

My name is Jim Mitchell. I am honored to be here with you today for many reasons. First, this is a very distinguished group here, and secondly, for the location, for being in Switzerland, I came here 15 years ago, on what was originally a "quick" two-year assignment after Swiss Bank bought O'Conner Associates, so I was with Swiss Bank/UBS for a while.

Then about seven or eight years ago, I started a company called Executive Wealth Management. The focus of our company originally was twofold: a fund of funds and as the core business the design and administration of global deferred compensation plans for Deutsche Bank, Goldman Sachs, ABN AMRO, and Morgan Stanley. We also did research on investing in a very tax efficient way on a deferred comp basis, because there was a strong appetite at the time, seven years ago, well not today...

We spun off our hedge fund business, the fund of funds side. Our clients said, "Well wait a minute, we want our own funds on the menu, and you are competing with us." So we spun that off about five years ago and right now, our assets stand at about 5 billion adding up both sides of the business. We also developed a third party marketing group in London which raises money for hedge funds.

Christopher Brodie
Krom River

My name is Christopher Brodie; I am from the Krom River Commodity Fund. I would like to thank everybody for holding this in English, because I don't speak any other language - so I appreciate what you are doing.

The Krom River Commodity Fund started just under three years ago. Last year, our performance was just under 37% return to customers. Next week, we are launching a systematic trend following fund. We expect to benefit from upcoming large movements and extreme volatility, when volatility expands from area to area.

Matthias Knab **Given the current recessionary environment, where can investors and managers still find sources for return?**

Christopher Brodie

At the moment we have great events going on in the markets, which will continue. We have some very large forces acting on the markets which will cause large price movements. Such movements will be influencing the value creation of most of us at this table.

The most obvious one of these forces is the sheer amount of money that the United States government has to raise this year. The United States Congress has instructed their office of debt management to roll their debt at the front end. This means that the United States finds itself in the same situation as Northern Rock, with most of its debt rolling always at the front, meaning that it becomes extremely vulnerable in any problematic situation. Their most awkward situation is the sheer amount of new debt that they have to issue. They have to find buyers for enormous amounts of debt this year which will be difficult to achieve.

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If the United States cannot find willing buyers of its debt, the U.S. will have to start quantitative easing, which is shorthand for printing money. This will have a major impact on the U.S. dollar, on other currencies, and other markets. The knock-on effect from changes in currency valuations will directly impact the values in almost all other markets, it will change everything.

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Philippe Pillonel

I think we subscribe to what you just said. Volatility is another way to create value. With the tremendous volatility right now in the market, people can capitalize on that. At the beginning of the millennium, money was made with low volatility and high leverage. As we know, this is gone, at least for the time being. I am sure that memories are short and in the future, at some point in time, this constellation will come back, but right now, the parameters are low leverage, high volatility.

The other factor which will move markets but which will also be hard to anticipate, is government intervention.

It is very clear that politicians are very, very involved, right now with what's going on in the economy, more than ever before. I think that there isn't a leader in the world who doesn't want to be clearly associated with any effort to improve the economy. We have seen this earlier in the year in Davos; there were more politicians taking the floor than economists or people from the industry or financial industry.

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Obviously, this is going to be a very important factor, but at the same time it is difficult to assess at which point governments are going to intervene. I read on Bloomberg recently, just a few lines saying the Mexican government had intervened on their own currency, but it was announced a week after that intervention took place.

Philippe Pillonel

Obviously, this is going to be a very important factor, but at the same time it is difficult to assess at which point governments are going to intervene. We had mentioned here currencies, which have a tremendous potential to create a return. However, let me just share a brief note I read on Bloomberg recently, just a few lines saying the Mexican government had intervened on their own currency, but it was announced a week after that intervention took place.

This shows that one has to count on governments doing something. They will be active in the markets, which can render the job of hedge fund much more difficult, because we are looking traditionally at an open market. Now we are still in an open market, but with greater political scrutiny and impact.

Ernesto Prado

We all know that this negative environment is at the same time creating the biggest opportunity we are probably going to see in our lifetime.

The big volatility, the directional movements, whether it is currencies or credit etc., offer a very clear view of how to deliver performance in the short-term - not without risk, though. As I mentioned before, there are increased risks (regulatory, counterparty…). Your administrators could face serious problems, and so on…

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Ernesto Prado

Futures, macro or currency side, have offered – and still do – very clear trends to follow for performance, if one can take the directional risk. In the relative value space, it's undeniable that there is tremendous value being built. Basically all hedge fund managers should be saying: "yummyyy!" But it's still too early to venture. Furthermore, there is going to be even more value creation, because the write-downs are not over. We are definitely not at the entry point yet.

Meanwhile, for everyone who had started going into distressed, trying to fish out fundamental relative value, it was definitely way too early. Today, short-term directional trend following, and decisive macro have still potential. Later in the year… once the first signs of the passing storm emerge, then fundamental value, expressed through all relative value strategies will give us two or three years of fantastic returns. For the ones among us who will be in a position to benefit from it.

Prof. Dr. Peter Meier

As I heard till now, there is a lot of uncertainty in the system, not only the market. Uncertainty, for me, means in a way a risk which is not measurable, which is very difficult to deal with. My question here really is: who else than hedge funds can deal with uncertainty?

Alexander Ineichen

When dealing with that uncertainty, I'd like to distinguish between an active and a passive approach in investment management.

The active part includes us, the hedge fund industry, and the rest, the non-active or the passive part is the traditional asset management sub-industry where risk is defined relative to a market benchmark, and risk is managed accordingly. You could also argue that passive is another term for long-only, right? In the face of uncertainty, where do you want to be? Do you want your money managed passively or actively? I believe that the case for our industry is very good. I think you want an active approach to actually benefit, to capitalize on uncertainty.

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I think what hedge funds need at the moment, in this environment, is markets to normalize. So, whereas the long-only investor needs markets to rise, hedge funds need markets to normalize, they do not necessarily need markets to rise. That's a very big difference.

I believe that a good approach, an active approach, is the fund of funds model. Right now you can hear a lot of people criticizing the fund of funds model. They argue that its hey days are over. However, I have a different view on that.

Alexander Ineichen

I think what hedge funds need at the moment, in this environment, is markets to normalize. So, whereas the long-only investor needs markets to rise, hedge funds need markets to normalize, they do not necessarily need markets to rise. That's a very big difference. Whether it's early or not to go in to credit, you can debate that until the cows come home. These views on strategies, or timing the strategies, are quite difficult in my view. Sometimes you get it right, sometimes you don't.

I believe that a good approach, an active approach, is the fund of funds model. Right now you can hear a lot of people criticizing the fund of funds model. They argue that its hey days are over. However, I have a different view on that. I believe it is mainly fund of hedge funds are in the business of constructing conservative portfolios, not hedge funds. Hedge funds are the building blocks of a conservative portfolio.

With a fund of funds, you have risk management on two levels. The hedge fund manager controls risk on a securities and markets level, while the fund of hedge funds manager controls risk on a single manager level. Given the uncertainty we are discussing, with the markets where they are today - assuming that they normalize somewhat - I would advocate that the fund of funds model is actually quite strong.

Jaime Castán

I fully agree with Alex's comments and I feel a bit disappointed that quite a few investors who have recently reduced or entirely redeemed their hedge fund holdings are going to miss the great opportunities that lay ahead for the industry:

Looking at the drivers of future returns, the first one will clearly be the amount of liquidity pulled out of the industry and markets. This reduction of liquidity in fact is going to deliver all those great opportunities generally via an increased volatility and mispricings in all markets.

If we analyze a bit further the different drivers at a strategy level, for equity strategies clearly the biggest one is going to be the dispersion of returns among stocks. This is going to help both trading oriented as well as fundamentally oriented managers.

We believe that the stock market will bottom some time during first half of 2009, which will lead to the normalization that Alex was referring to.

In the Relative Value space, clearly, spread volatility, and eventually spread compression, should be big sources of return. In the Credit space we believe that restructurings will be a large source of returns. We are going to see a huge amount of defaults, probably more than the market is expecting, and clearly this distressed cycle is going to be very, very different from the previous one, which was a V shape recovery. Then, if you were not there early, you missed the opportunity. It will definitely be different this time, and it will pay to be patient and choose the right moment. We are closely monitoring a further pick-up in defaults as a sign to increase our allocation to the strategy.

Finally, on the Global Macro space, which was also mentioned before, foreign exchange volatility is back. In one way you could say that we are moving again to a more simple investment space, as it was fifteen years ago, before the securitization machine was at full speed generating liquidity. I think we are going back to the strategies that worked well in the early to mid 90s; as a consequence, we are already seeing strong interest to participate in FX strategies, given its renewed volatility.

On the Fixed Income side, clearly, everyone is pricing the rates go to zero in all the main markets. Eventually we will see an increase of volatility led by the fact that, at some point, markets will start pricing future rate hikes. I believe there will be a lot of false starts in this rate hike pricing, which should generate a good amount of volatility and curve moves, and will be a great source of returns for fixed income and macro managers.

Uwe Eberle

Let's take a step back into 1998. That was a time where just all the banks, many of the market participants have been playing the same deal, the same trade; and have been competing for opportunities. Today, a lot of those banks are out, they will be out for quite a while. The prop books are down, and some of the banks changed their business models, so they will never be back to the same extent that they have been in the market.

So absolutely, the opportunity is there. The risk we see, and this happened as well in '98, is that people will hesitate to take more significant risk, they will take their time to enter the market and build up bigger exposures.

One of the areas where I think people will increase their investments is managed futures. Managed futures adjust to the volatility well, are willing to increase their positions fast if trends appear. And I can see a good potential for some large moves, in the currencies for example.

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One of the areas where I think people will increase their investments is managed futures. Managed futures adjust to the volatility well, are willing to increase their positions fast if trends appear. And I can see a good potential for some large moves, in the currencies for example. So for managed futures, there is still a huge opportunity out there.

On the discretionary side, it might take a little bit more time before people take bigger positions; too many people got burnt.

Christopher Brodie

I'm a very simple man who tends to look at the world on a very simple basis. I believe often that this is the way to do it.

I hear a lot of people were saying "how are we going to change now, this is what we're looking for, this isn't working" etc. but in fact, a lot of the things you want is already done, a lot of things that you're looking for already exists, people often have not recognized what they are looking for when they see it.

The managed futures industry had always highlighted the lack of correlation between managed futures and mainstream asset classes, which now, during the last twelve month, became particularly obvious.

About two years ago, I had a chat with a pension fund manager and I was pointing out to him the compounding effects of managed futures, albeit at a much lower rate than that one. He responded with: "You guys, you just pick your points." And I thought, well, maybe he was right, so I went back to put this to test. I said, "Let's make the assumption, that for the past ten years, a long-only manager had purchased stock each time at the low, and that he has sold it then at the high price on the high day, or the high move". Then I compared that result to managed futures manager producing a return of only 15% to the investor.

What I discovered was that this guy, who is a double genius - having sold right at the top and bought right at the bottom - performed half as well as a managed futures manager trying to make just over 1% per month.

Christopher Brodie

I was looking at one managed futures participant who had been around for some time, whose returns over since 1996 was about 1,000%, whereas the stock market returns have been about 28%. Last year, the managed futures industry, apart from dedicated short-sellers, was the only strategy that actually made money, and good money in many cases, and this performance profile is actually part of the standard norm.

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What I fail to grip is why people try to make life just so complicated - what they should be looking for is something that's relatively simple, which works, isn't too volatile, and compounds over long term at a beautiful rate. I don't really understand why the managed futures industry isn't one of the core industries for portfolio management.

Jaime Castán

We at RMF are big believers of managed futures as a diversifier in fund of funds portfolios.

However, it is a very misunderstood strategy. I will share with you some experiences I recently had when I tried to propose adding managed futures to a portfolio of hedge funds:

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In one case, a good client, approached us exactly in January 2008, asking us to propose a portfolio that could give protection in this environment. Our proposal contained a high proportion of managed futures, however, the client came back and told us: "Sorry, my sales people do not like this product, because it has a too low Sharpe ratio." What they don't see is that if you want protection, you cannot ask for a high Sharpe ratio. If you look at the Sharpe ratio and volatility of managed futures on an isolated basis, it is not attractive. But clearly, it adds protection.

The second example is from February 2008, where I was giving a talk at a well-known conference in North America and I presented the case that managed futures are a diversifier for fund of funds portfolios. The first question from the audience was: "So you come all the way here to tell us that we have to put our money in black-box models?" - like saying, "are you out of your mind?"

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Frederic Berney

Also we at Harcourt have always believed in managed futures, and I share everyone's thoughts here. It boils down to the question how strong were you able to convince your investors to keep them about three or four years ago, when everything was working against them.

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Frederic Berney

Matthias Knab

Any other comments related to strategies in this recessionary environment? What opportunities are you pursuing right now, or are you on the sidelines?

Jim Mitchell

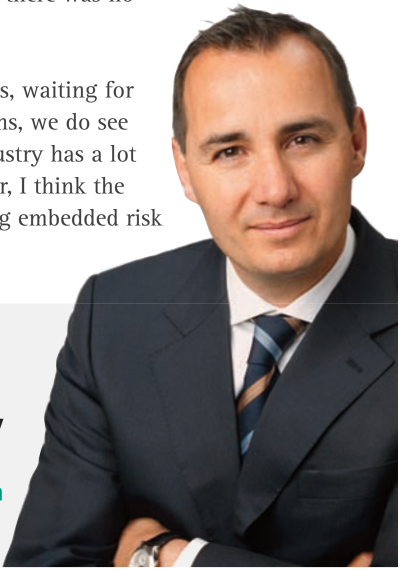
We are uniquely positioned to observe the market; you could almost call it an experimental controlled environment. We have over $4 billion in these deferred comp-plans that are deferred to retirement, and there's a fixed menu to choose from.

Depending on their clients, people can reallocate quarterly and monthly, some have lock-up periods etc. Our clients are the most highly compensated people...They go on our website almost every day, so I can uniquely see, in this closed environment, what people are doing every month. I can't tell you which client is doing what, but on an aggregated, macro basis, these are still quite interesting observations.

Obviously, and in theory, they are highly informed bankers on investment risks etc., but then I'll use the analogy: my brother is a doctor, and sometimes doctors are the worst patients. So, don't take that everyone is totally informed about their investments. But the trends that I am seeing are what I thought we'd see -- you know ignoring the lock-ups, I thought we would see over the last 6 to 9 months a mass exodus out of hedge funds, and out of $4 billion, I'd say $2.5 billion are in hedge funds.

One of the things we are seeing though is that people aren't going into distressed at this time. So also there the consensus is that it is too early. There are distressed funds on all of our menus, so I think people are waiting to see if the bottom has been reached. I also see people are getting out of highly leveraged funds of funds, and there seems to be a movement into more actively managed single strategy funds, as opposed to the very passive ones. We also see people going to more established funds of funds.

Dr. Christian Raubach If we see a lack of movement in or out of certain asset classes, I believe it's because investors are shell-shocked. Last year, even diversified portfolios imploded, because regardless of whether one held equities, commodities, hedge funds or corporate bonds; there was no place to hide.



What we see now is that investors are sitting on the sidelines, waiting for better news. So although we don't see significant redemptions, we do see lots of cash accumulating. I believe that the hedge fund industry has a lot of work to do in rebuilding investor confidence. In particular, I think the industry has failed to create adequate transparency regarding embedded risk factors in some strategies. Here are some recent examples:

Although we don't see significant redemptions, we do see lots of cash accumulating. I believe that the hedge fund industry has a lot of work to do in rebuilding investor confidence. In particular, I think the industry has failed to create adequate transparency regarding embedded risk factors in some strategies. Here are some recent examples:

Dr. Christian Raubach

One, strategies that were offered as absolute turned out to be relative return. Minus 15 is not bad in 2008 if you told your client that you are aiming to manage his equity with less risk by adding short positions, but it is bad if you told him that your Equity Long/Short Fund will always finish in the black.

Two, is the liquidity issue. Hedge Funds that had monthly liquidity all of a sudden stopped taking redemptions. The notion that when things are bad, you can't touch your money, went down really badly with clients - and rightfully so.

Three, is the fees. I am not really sure if a 2% fixed fee and 20% performance fee with a hurdle of zero is a fair pricing strategy for a long-short equity fund, where one mixes lots of beta with a few of one's own ideas in the hope that they are more often right than wrong. At least the hurdle should reflect some of the risk that is embedded.

I think confidence will return if the hedge fund industry addresses the above issues. Investors will then see the advantages of a hedged strategy, i.e. the fact that a hedge fund manager has more freedom in weaving his ideas into a portfolio. He doesn't have to sit on a long-only stock portfolio and watch it evaporate by more than 50%. This advantage will always play into our hand, but we have to have clear and thorough discussions with the clients about realistic outcomes. This is our challenge in the time ahead.

Uwe Eberle

I very much agree with you on the education and expectation management. Ironically, we have to resume our efforts which we had been doing back in 2000, 2002, addressing things again like "why hedge funds, why do you have to be in there" etc. While in the past some of the characteristics of hedge funds were not properly represented at times, we need to make sure that we address these issues properly this time.

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I am disagreeing in respect to the fees. Right now, the range, the dispersion of returns has been growing and widening very significantly. And accordingly, when you look back two or three years ago, you had for example some fund of funds out there with ridiculous pricing, where you asked yourself how can they produce a good product for that price?

People don't care if they pay a little bit more - they want to be with the right fund of funds. I am not sure if pricing is actually the big issue out there, but rather that people want to have the best provider. I think the issue is much more with funds who didn't deliver what the expectations were. They need to significantly adjust, or there is no place out there for them.

Jim Mitchell

From my experience in private banking in the last eight years, or when I ran this division of a private bank, people were saying hey, "Jim, if you are just going to just do average stuff for me in private banking, well, I don't need to pay a premium, but if you come up with creative solutions or hedging strategies, I'm willing to pay for that."

Frederic Berney

I also see these needs for different pricing and building confidence. My view is that we will see an industry which will probably divide itself using different options to re-gain the trust that has been lost.

It is actually shocking how trust has been broken to the point that people are prepared to pay 20% or 25% to see their money back in cash. This is really difficult for me as a risk manager to understand.

Today, things are calming a little bit down; however, people are still prepared to pay a premium to get back into cash. So what can we do to gain this trust back?

Obviously one aspect is liquidity, which everyone talks about. People are shocked because they can't get their money back, of course they will want much more liquidity going forward. One solution is to build portfolios which are based on managed accounts. However we can't fool ourselves, managed accounts can only cover a subset of the entire investment spectrum of the hedge fund industry. I don't think we will see a managed account in distressed securities for example.

This is exactly where the industry will split itself between the ones that are prepared to provide managed accounts solutions and the others which will seek other solution to keep investing in the entire hedge fund universe.

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The other side of the industry is about re-building trust. One of the key elements of trust breaking is not knowing what your competitors or co-investor will do. When you are in a fund of funds and you see somebody redeeming, you start to think "Well, if I don't redeem now, I am going to be the last one in the fund with all the illiquid positions". You are basically indirectly forced to redeem.

The remedy for these investors is clearly a customized solution.

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The remedy for these investors is clearly a customized solution, where the client is the only investor and is not affected by other investors' decisions. If the client wants to redeem half of his portfolio, we can talk with him and tell him exactly how his portfolio is going to look like after redemptions, and he can take that responsibility himself.

Such a cooperation will enable the industry to continue in the way it has done before, basically taking opportunity of all these illiquid pockets which have tremendous value today. This is precisely Harcourt's main business model.

Philippe Pillonel

I think there are three main ingredients to a successful hedge fund or a successful proposal going forward. In the past, you could say that performance was almost the only one. I think today we are also talking about transparency and liquidity. I fully agree with what was said on liquidity, so I am not going to add anything on that.

On transparency, it's very clear that we need to be upfront with the investors. Then there is the old debate about who are the proper investors for these types of investment. We need to be upfront

On transparency, it's very clear that we need to be upfront with the investors. Then there is the old debate about who are the proper investors for these types of investment. We need to be upfront and explain to investors, for instance, that there is volatility. Before last December, we had a lot of requests from people asking us, "why can't we reduce the volatility...there are funds out there that have low volatility and nonetheless solid return; why can't you match that?"

After December and some of the events we have seen, that topic is no longer as prominent as it was. People have realized that you can't have your cake and eat it. To have the return that people expect within the industry, they have to be able to face volatility, and potentially stomach drawdowns.

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Matthias Knab **We have been touching on a couple of good points here. Going forward, what else do we have to differently?**

Ernesto Prado Coming from the proprietary trading side, I know how hard it is sometimes to explain to the average investor what it is that the hedge funds we are invested in are doing. So although I agree that it is essential to explain to investors what strategies are being followed and their characteristics, there needs to be a lot of work on both ends to enhance transparency in the investment process.

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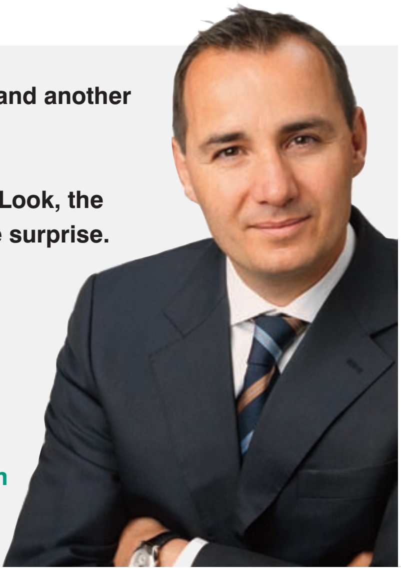
Ernesto Prado

At the end of the day, the economy went into a huge excess in providing easy credit, for which we are all suffering today, not only because investment bankers were selling sub-optimal products to anyone willing to buy them, but also because the buyers bought them...tons of them.

There will be tremendous pressure for change, but, I don't expect the hedge fund industry to be transformed from one day to the next. Nor will all hedge funds become fully transparent and investors fully versed on what hedge funds actually do. Developments will rather happen in gradual steps; in the same way as there were first generation pension funds coming into the space, then second and third, and some who are only getting started. The evolution is going to exist forever. At the end of the day, one can try to push transparency to the absolute, theoretical maximum, let's say daily reporting at the position level. Yet this will not reduce the default rates, frauds, or the like in the underlying positions.

Dr. Christian Raubach I think liquidity is the key issue here. Its fine to have a hedge fund that is always liquid and another that isn't. But a serious problem arises if the rules change halfway through the game.



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The private equity industry has managed the liquidity question much better. They say, "Look, the money is gone for 10 years!", and then - surprise! - it's back after three years, a positive surprise. The hedge funds have done the exact opposite, which obviously irritated the clients.

I agree with Ernesto that you can't explain everything to everyone. Trying to explain a managed-futures program to someone who has never seen a quant is very difficult. But you should be able to give a representative picture of how much money you typically make in bull and bear environments.

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As long as we are consistent, then I think we can do any product we like with any feature, but changing halfway through - that was, I think, part of the disappointment last year.

Jaime Castán

On the strategy side, I think it’s the end of the Sharpe ratio-seeking “at any cost” strategies. There has to be a certain volatility for any given level of expected returns, and I think a lot of the unfortunate events recently were actually driven by this search of high Sharpe ratios. Maybe going forward, too- high Sharpe ratios will be seen as a warning signal, not as an attractive proposition from a manager...

Regarding liquidity, for sure people will look for more liquid strategies, but what may happen is a clear bifurcation of strategies based on their liquidity profile. In the past, we have seen commingled vehicles which invested in markets with very different underlying liquidity. As an example, multi-strat managers offered ‘the whole pack’ of liquid and illiquid strategies, offering liquidity terms to their investors which were some sort of average of the liquidity of their underlying strategies. Then, when other investors started redeeming – as Frederic mentioned – you were left with no choice but to submit your redemption as well, or else be stuck with the most illiquid part of the manager’s book. As a consequence, we have seen a wave of indiscriminate gating across the multi-strategy managers.

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We will see liquid vehicles, which invest in liquid strategies and will pass on that liquidity to their clients. If investors redeem, its okay, they probably will still be liquid for the rest. Managers following illiquid strategies like credit, distressed etc., will offer vehicles with specific liquidity conditions consistent with the underlying liquidity of their markets. These vehicles will have one, two or three year lock-ups, and will feature fee terms similar to those of private equity vehicles, with performance fees charged only on realization. We’ll see a reluctance to invest in commingled vehicles of different underlying liquidity profiles.

Another challenge going forward is that institutional clients may not want to be invested in commingled vehicles with private clients.

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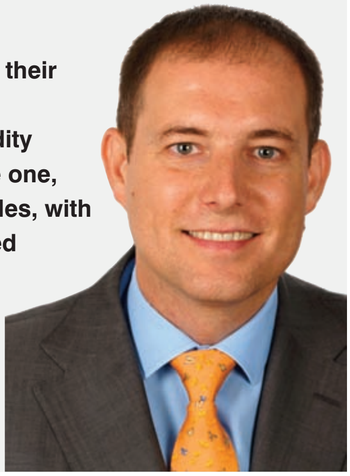

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Another challenge going forward is that institutional clients may not want to be invested in commingled vehicles with private clients, because there is a perception on the institutional side that private clients will run to the mountains again at the first sign of a crisis.

Alexander Ineichen

One interesting trend, which actually started before this crisis, was hedge funds trying to put a price on liquidity. You could see some funds were raising money in different share classes which all had different liquidity terms, like a one-year share class, three-year share class, five-years share class, and the longer the lock-up, the lower the fees.

This is one way to sniff the market for a price; that is, trying to figure out what the market is paying for liquidity. I could well imagine as it was said in this round that this trend is going to continue. As we perceive ourselves, or let's hope we are, the more innovative part of finance, such new models can surface.

There was also a trend which is perhaps seven years-old, which dealt with the confluence between the hedge fund and the private equity world, and I think most people agree with that. In terms of fees, the private equity people always thought how wonderful the hedge fund world was, because they get the fees upfront so to speak, compared to private equity. They do not have to wait until they deliver the end result.

What the hedge fund industry could come up with, or is perhaps already in the process of coming up with, is some form of clawback: that you get paid a lot if you deliver a lot in the long-term, rather than on a quarterly or on an annual basis.

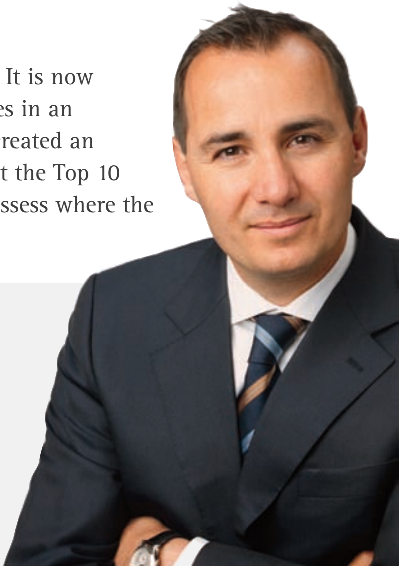
Sona Blessing
Opalesque

Related to this discussion about liquidity and transparency, how do you view ETFs and their presence?

Dr. Christian Raubach

There is clearly an "ETF-ization" occurring in the financial world. It will greatly affect the many traditional long-only funds that closely cling to an index and deliver index minus cost year-in, year-out.

On the other hand, ETFs offer significant new opportunities. It is now possible to gain exposure to many markets, sectors and styles in an efficient and cost-effective way. Wegelin, for example, has created an "ETF-Rotation" product for private clients in which we select the Top 10 ETFs from a universe of 300 using a quantitative model to assess where the biggest opportunities lie at the moment.



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Alexander Ineichen

ETFs are an access tool, a very attractive tool. I see that hedge funds use a lot of ETFs as a tool.

Matthias Knab

How else will the hedge fund world change?

Prof. Dr. Peter Meier

Over the last maybe 15 years, a lot of market strategy portfolios like balanced portfolios, traditional portfolios, were set up in Switzerland. The average balanced portfolio has lost around 20% last year.

If you have a balanced mandate, you have three risk factors mainly. In Switzerland these are currency, because it is multi-currency, equity and interest rates, or bond prices.

Much differently, a fund of funds portfolio may have seven factors. But if you want to model realistically, you need much more factors, also nonlinear factors. Nonlinearity is a quality of the hedge fund manager. I want to point out that there is an extreme discrepancy between information possessed by hedge fund managers and information released to the public. Maybe one way to proceed in the future is to establish a broader communication, where information known by risk managers within the larger entities is also published or given out to end investors.

Specifically, a fund of hedge funds can be described by 10 to 15 risk factors. So the future of risk management and to disclose risk is really in disclosing risk factors, or factor loadings. My understanding of transparency means that in the future, end-investors should also profit from the very deep knowledge available particularly in the hedge fund industry.

Prof. Dr. Peter Meier

On the other side, we have fund of hedge funds with the same result in terms of return. Why does nobody talk about balanced accounts which are designed for conservative clients, by the way? I see the reason in the risk disclosure. If you have a balanced mandate, you have three risk factors mainly. In Switzerland these are currency, because it is multi-currency, equity and interest rates, or bond prices.

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Philippe Pillonel

When we did our prospectus, we spent a lot of time going through the risk factors and we listed about twenty risk factors. But I think that there is a limitation to what, at least, hedge funds can do, when it comes to education. At some point, there are also investors' segments you probably don't want to go to. Despite all the documentation you had put together, despite all the efforts you would spend trying to educate those investors it's going to be extremely difficult to make them fully understand let alone accept the risk, because it requires a certain level. You are a Professor at University, so you know that your students need a certain level of prior education before attending your tuition, and I would say that is the same with us.

That's why I believe, contrary to what people seem to say, that the fund of funds industry has got a

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future. For us as a single fund, we strive to have direct access to certain type of investors – mainly institutional, including financial institutions, pension funds, and large family office, i.e. investors who have got the knowledge. But then there are plenty of other investors who we don't want or are unable to access directly. The fund of funds industry then can help us tremendously get access to those investors and create the link.

As Jaime indicated, putting together the different types of investors is potentially a recipe for disaster, because the institutional investors and the big family office are probably unlikely to act in the same way as, for instance, most private investors. The first may stomach some losses and stay focused on the long-term, while the second may react abruptly, creating imbalance and potentially penalizing the longer term investors. I think we have seen that recently with events which have taken place.

Ernesto Prado

I want to comment briefly on the risk factors and risk transparency. When you try to model hedge fund performance with any sort of historic factor, it is like driving a car forward and making decisions by looking at the tracks in the back. Their VaR-iabilty and statistical moments can then sort of predict what may happen later in the time line. However, they will not warn you of the wall which had never before been there... In the markets there was no single historic risk factor that could have helped us make the decision we undertook to short the sub-prime market before it crashed.

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Ernesto Prado

We will have to better appraise investors and adjust liquidity in our funds in line with the underlying investments. Whoever is selling funds with monthly liquidity and is going into distressed investments has done a disservice to the alternative market. Fortunately, the market is driving due-diligence and swiftly correcting for those mistakes. There are fantastic returns to be achieved in complex, structured strategies that are not suited for monthly liquidity like distressed managers and yes, ABS or mortgages.

Prof. Dr. Peter Meier

Operational quality is paramount in this business. At our university, since six years ago we have collected data on Swiss hedge funds of funds, and one thing seems to become obvious. If we would draw a line between those Fund of funds managers that I would judgmentally qualify as strong in operational quality, including risk management facilities etc., and the weaker ones on the other hand, I am quite sure that those with good operational quality have almost no problems now even with liquidity, even though we are in a very exceptional situation. Possibly in a year from now we can do a detailed study on this question, but I am quite sure that this is the case.

Alexander Ineichen

One trend I find worth pointing out about changes in the hedge fund industry is the trend of various businesses going from banks to hedge funds. I believe this started in 1998 after LTCM, potentially earlier. Banks at the time wanted to increase their PE ratio. One way to do that was to reduce earnings volatility. The market at the time was paying a premium for more stable earnings. So banks started to get rid of some trading activities that were profitable, but volatile. Both talent and risk capital wandered off to the hedge fund industry. The irony of course was that once the more stable fee income started to dwindle in the 2000-2002 bear market, the banks wanted those volatile but positive earnings back.

Bill Gates was once quoted: "Banks are dinosaurs. Give me a piece of the transaction business and they are history." Speaking of dinosaurs: Recently I came across the following idea: a couple of hundred million years ago the dominant species on the planet was the dinosaur. Dinosaurs were very big. They ate a lot. Actually they ate so much from the flora and fauna that other species could not evolve properly. The meteorite that took out the dinosaurs allowed other species, especially mammals, to evolve, as one main competitor for nutritious food was wiped out. In other words, had that meteorite not struck, we would not be here today.

A thought I would like to plant is the following: Replace the word “dinosaurs” with the word “banks” and the word “mammals” with the word “hedge funds” and, potentially, the current credit crisis is the “meteorite” that is going the change our financial habitat in a very, very material way.

Joe Taussig

The question was what will happen with the hedge fund industry? I would like to dial back into the 1960s for two pieces of information that I think will point the way for some of them.

The first was an article in the Harvard Business Review called Marketing Myopia written by Ted Levitt. I think it is the most reprinted article in the history of the Harvard Business Review over the last 40 years, and it still sells many copies. Levitt’s premise was that the railroads in America failed, because they thought they were in the railroad business rather than the transportation business. The buyer of the service was looking for transportation services and looked at alternatives, and the railroads had many opportunities to employ Schumpeter’s Creative Destruction and move forward into the new modes of transportation, but they failed to do so.

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The analogy is: I am not sure there is really a hedge fund industry per se. I know, everyone thinks they are in the hedge fund industry. I think they are in the business of using unique skills - and there is a wide range of those skills - to deliver superior risk adjusted returns over long periods of time for the people to entrust them with the money.

I started the first investment banking firm in Bermuda in 1990 and I helped finance most of Bermuda's insurance industry, and sometime in the late 1990s I had the revelation that the equity capital at that time in the hedge fund industry exceeded all insurance and reinsurance companies in North America combined. At that time I thought, "well, this is such a no-brainer, the hedge fund industry will take over of the insurance industry!" - and of course, it hasn't happened.

Currently, and we see this through our own mandates, very large hedge funds are preparing to launch banks and insurance companies as permanent capital vehicles. There are two important aspects to that. First, they aim to provide better returns and liquidity for their investors. Secondly, these firms start out with a strong capital base - we are talking about mandates which involve more than $2 billion of capital. Right now we are talking to a large hedge fund that would maybe start such a unit with $10 billion. To put that perspective, if it were a bank, it would be the sixth largest bank in the United States.

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The second piece from the 1960s relates to arguably the greatest hedge fund manager to ever run a hedge fund for 10 years - Warren Buffett. I don't know if you saw it in Opalesque, but there was a reprint of an article from Fortune's Carol Loomis, who is one of the few journalists that has access to Warren, she edits his letter. In 1966 she wrote about A. W. Jones and a new phenomenon which she called "Hedge-Funds", and she lumped three other players in the same category - one of them was the Buffett partnership.

Buffett started out with $5,000 of his own money, $100,000 of friends and family and on performance fees alone; no management fee, performance fees over hurdle, and reinvesting those performance fees after achieving returns of about 30%, Buffett's personal wealth climbed to $25 million in ten years. And remember, he paid US taxes along the way.

That's a pretty good track record, but what did he do? He quit cold turkey. He didn't quit because he was unsuccessful. As a side note, at the time he quit, oddly enough, he had a single stock representing 50% of his portfolio and he owned 70% of that stock and I would guess that if he had redemptions, he would be in the same soup that many find themselves in now.

Buffett migrated out of the hedge fund business into the reinsurance and banking industries. The primary reason was that the hedge fund platform was unstable, and still is.

Most managers are not going to do something as radical as Buffett and just abandon their business. But some are clearly migrating into the banking and insurance industries, where they have a much more stable platform and their investors do get better risk-adjusted returns and better liquidity.

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One of the reasons it probably shouldn't happen is that there is a lot of legacy liabilities in the insurance industry. Even in the 90s there were those risks, there was asbestos, breast implants, and God knows what else. Forming startups however was very effective. After every crisis in the insurance sector, massive amounts of money was going into the industry, and mostly into startups, because there are no legacy liabilities. You come in at book value without a premium.

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If it was $5 billion, it would be the 10th largest insurance company. At $1 billion, you are the 50th largest bank in the United States, just as a comparison.

At the end of 2007, the equity capital in the hedge fund industry exceeded the entire combined equity capital of the banking and insurance industries of North America combined. I don't have these numbers yet for 2008, but I believe 2008 will be the same, because the equity of the banks and the insurance industry has just been obliterated in that year. AIG is basically gone.

Let's now look quickly at two companies that I was involved with and were launched with hedge funds. Both are publicly traded, hedge fund sponsored insurance companies. One was called Scottish Annuity, and the other Max Re and both times eventually, the insurance people and Wall Street wimped out.

If you look at these two companies, they have 10-year records, publicly traded, etc. If you look at how they performed, they both raised about $800 million of equity capital over time with more than one offering. The earnings in one were $300 million over the 10 years, the other were $500 million. The investment returns for both firms were greater than the earnings, using long-only portfolios, because they abandoned the alternatives. So, they actually lost money in insurance, but by the way, Buffett also did for 40 years.

However, if they stayed the course of the alternative managers who sponsored this - Lee Ainslie of Maverick & Scottish, which I was involved in, and Louis Bacon of Max Re, which I was not involved in, the person that started it, liked my idea and when I am there he gives me credit for it, but when I am not there, he takes credit for it - if you overlaid Ainslie's and Bacon's returns for that time, they left $1.9 and $2.3 billion respectively on the table, because their investment skills were missing in action.

I have done the same analysis for Swiss Re. If Swiss Re had just invested comparably to the random HFR Fund of Funds Index over the last ten years, at the end of 2007, $30 billion of equity would have been over $50 billion, and they wouldn't be in the crisis that they are today.

Frederic Berney

It just came to my mind that what you are proposing is basically that the hedge funds are becoming the good banks of the future. That is an interesting thought...

I agree with the others who made the case for funds of hedge funds. Investing is cyclical, so also here it is not sure how long managed futures will have such a good run. Today a lot of people may want to invest only in managed futures, and I am not sure about that....

One last thought on Prof. Meier's suggestion to publish risk factors of funds. Being myself a risk manager, I understand and welcome your approach. I would agree that it makes a lot of sense trying to give that additional transparency to the overall investment public. Probably every one of us can identify with these factors at the fund of hedge fund level, and if we don't agree with factors explanation, we should be in a very good position to explain to investors/potential clients why this is the case.

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However, I also want to point out that to completely rely on risk factors to manage your own fund of funds and monitor single hedge funds is very dangerous. There are too many lagging effects, which do not reveal the present risks and do not enable you to adjust your portfolio in a dynamic way. You need more than risk factors for that.

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Matthias Knab

Let us focus on Switzerland for a moment. How is the infrastructure for hedge funds developing here? What is happening? Christopher, you just moved your fund to Switzerland, what was your experience?

Christopher Brodie

Our main motive for moving to Switzerland actually was not tax, but the environment. If you are working in a company in London and it's taking you two hours to get in and two hours to get back every day and you are putting in long days, actually it has a significant impact on your performance.

I am not saying that we have not benefited from lower tax rates, but these are really not as great as people believe. When I came here, I was expecting to have a much quieter office with fewer people coming through and visiting, and interestingly this is absolutely not case. We have a constant stream of people coming through, which demonstrates that this area has a considerable hedge fund presence and that investors are constantly in this area.

Everybody from the London office moved with us to Zug, without exception. Operationally, we therefore had a seamless transition, without any issues whatsoever. I am absolutely delighted to be here, it has been a pleasure.

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Christopher Brodie

Prof. Dr. Peter Meier

During the last year, Switzerland has made some progress as a location for single hedge funds, and there were also government actions directed towards this outcome. Unfortunately, the handling of the liquidity crisis by the regulators was not adequate - applying rules that were made for the "good weather" situations, which have forced already some funds of funds to de-list.

Matthias Knab

Another topic that often comes up when discussing consequences from the current crisis, almost everywhere I go, are managed accounts. What are your views on managed accounts within hedge funds?

Uwe Eberle

Managed accounts are clearly the biggest demand you hear from the clients' right now. While in the past, you didn't get access to the best managers, but right now, actually the majority of the industry is quite open to give you a managed account.

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The investing model has changed and improved, we do have now more opportunities to build portfolios with a significant amount of managed accounts. Investors and allocators profit from better risk management solutions, because you have more transparency, you have more information and better reporting solutions. This is a very strong trend, and I would expect that we will see that quite a few funds of funds within the industry will execute on it and create products based on managed accounts only, because that is where the demand is.

Joe Taussig Do you think that demand is driven more by transparency or liquidity?

Uwe Eberle It's both.

Joe Taussig Equally?

Uwe Eberle It's both equally, yes.

Access to managed accounts is going to make a big difference between those funds of funds that have the infrastructure to do it and those who don't have it.

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Jaime Castán

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We don't expect the impact of managed accounts to be the same in all strategies. Liquid strategies are obviously more favorable to managed accounts; and other strategies not so much. In our portfolios, going forward, close to 80% of our investments in US and Europe L/S managers will be via managed accounts.

Joe Taussig Do you see any difference in the performance between managed accounts and funds?

Jaime Castán There is no significant slippage, as we try to avoid adding excessive constraints to the manager. Wherever it is possible, we like to invest in exactly the same strategy as the fund, and we closely monitor slippage. Slippage is not a big source of under-performance.

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In the past though, there was a selection bias; only weaker managers would give you a managed account, but as we said, this has changed tremendously in the past few months. Today, almost every manager is willing to give you a managed account, even the top-tier ones.

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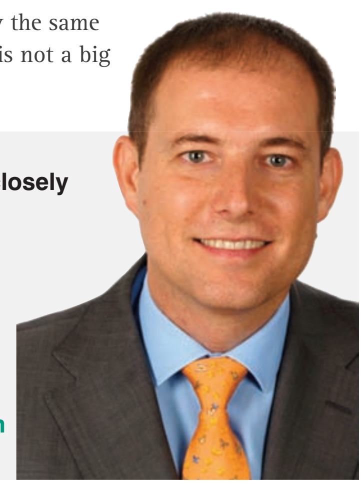

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Ernesto Prado Managed accounts will continue to grow. At our previous company, we actually decided to separate what we treated in managed accounts (liquid underlyings) and what we did not (distressed). We partnered with one of the bigger managed account platforms in order to be able to manage liquid underlying asset classes that justified the liquidity and the transparency. I also believe that such combined approaches are going to increase.

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I would like to warn that the move to managed accounts could also exacerbate the problems we may be brewing for the next crisis. (Yes, I know, hard to believe…) Because as products provide more liquidity and transparency, investors who are today selling all assets indiscriminately – even the ones with fantastic inherent value - will be free to pound the market even more violently. It is alas sad to notice that most investors were merrily buying without analysis assets that were worthless before and now they engaged in the opposite behavior. That markets can usually clear (i.e. trade) at all levels, does not mean they are efficient to achieve fair value. Maybe it is not a wise thing to give even bigger liquidity, because I believe that gates are there to save us all from the moves between the excess and the fat tail that are affecting us today.

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Frederic Berney

I agree with Ernesto, going forward there will also be issues with managed accounts. Again, we have to do the communication and education of investors and regulators. At the moment, the Swiss regulators are not really helping, I would say, because they do not also understand that a gate can be in the interest of the investors.

If, according to your offering memorandum you can apply a gate, then when are you going to apply a gate if not today, given the unprecedented crisis. However, some managers abuse their powers from the offering memorandum by putting gates up for reasons that are actually not clearly applicable. This is a real problem, because these managers end up in the press, and most people think that basically the whole industry is playing by these rules.

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Frederic Berney

The industry, and for sure the investors (funds of hedge funds), have to come out and clarify the good gates from the bad gates. That is probably something we will be discussing quite intensively going forward. Internally, and also with some of our competitors, discussions framework have already started. Hopefully this can also bring back a little bit of confidence to the industry.

Jaime Castán

We are seeing a big trend on investors to team up to defend their interests. There are some initiatives in North America and also in Switzerland. Our firm is participating in a Geneva-based group and another one in Zurich, also Harcourt is part of that group.

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The investors are coming together to defend their interest. Even though it is not the general situation, some managers have abused the offering memorandums (OM). The investors team up with two interests. As an immediate, short-term interest, they push for managers who are not behaving correctly. The second, longer-term objective is to create a much more simple and standard OM.

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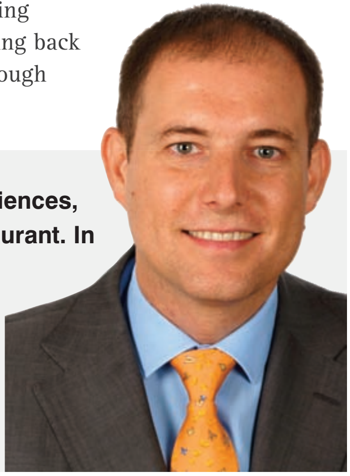
situation, some managers have abused the offering memorandums (OM). The investors team up with two interests. As an immediate, short-term interest, they push for managers who are not behaving correctly. The second, longer-term objective is to create a much more simple and standard OM. If you read some of the OMs, you probably wouldn't put money in a hedge fund...

Matthias Knab **Jaime, you recently talked about how easy it is for you to determine if a gate is legitimate or not, can you explain this here to the others?**

Jaime Castán With pleasure! Let me add a bit to my personal background. In the past, I also worked at a well-known hedge fund. This gave me many interesting experiences, having being in the kitchen so to speak, before coming back now as a customer in the restaurant. In my career, I also read through many restructuring proposals.



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Unfortunately, a few rotten apples are giving a bad name to the industry. There are many funds who raised gates, but in most cases this was in the client's interest, in order to make an orderly liquidation. But clearly there are few, I don't want to say how many, but there are few which are evidently unfair.

Matthias Knab **What would you say, how many funds have raised their gates, industry-wide? Any idea?**

Jaime Castán Close to 35% I would say.

Matthias Knab **Yes, I heard the same number as a guess from a very large hedge fund investor yesterday in Geneva..**

Joe Taussig Depending on the strategy, if you look at asset-backed lenders, the number would be 100%.

Ernesto Prado Going forward, it will be very constructive for the industry as a whole if there was an initiative to analyze the complexity of different memorandums and standardize them in order to help investors. We need to differentiate what are good and bad gates, and what is an appropriate asset-liability. This will help the investors to understand what they are getting into and possibly be more helpful than publishing risk factors, to come back to Prof. Meier's suggestion. Risk factors are a great tool to analyze the past, but they have their limits.

I believe the whole industry has a responsibility to get together and make sure that the interest of the client is properly represented, and possibly to become more engaged in the public discussion. The public discussion is going quite often in a very wrong direction, and the industry has done a bad job managing or even participating in the discussion.

I mean, a fraudster like Stanford blows up, and immediately it was a hedge fund. Everything which is bad is a hedge fund, we have to get over that as well.

Because our industry is not properly represented, it effects us tremendously. Both on the regulatory side, and on the investment side through redemptions. Many investors and counterparts are of course well-informed about hedge funds. But mind you, there are some other parts in the investor's firm or institution, maybe the management or board members, who are not so close to hedge funds. And they will get their information or will be influenced by the mainstream press.

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Matthias Knab Just a final point to that. I was attending a hedge fund conference yesterday in Geneva, and they had a panel on called "The Vilification of Hedge Funds". One visiting hedge fund manager stood up and shared a very interesting experience.

He had emailed a well known journalist at a prime U.S. publication and pointed out a number of factual errors in one of his recent articles. The manager provided all of the details and explanations why the journalist was wrong, and was completely surprised how open the journalist was, that he emailed back to him, and in fact a continued communication or relationship was established over time. And interestingly, the manager says that this journalist is now writing completely differently about hedge funds than before.

So one person can actually do a lot in this respect. I am on the media side myself - however I would not qualify Opalesque as mainstream press, but rather an industry publication - but for over six years I am dealing with this issue: how are hedge funds represented in the press.

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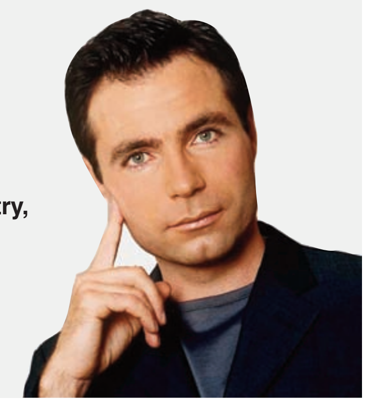
If you do your homework, there are probably only about ten or twelve people in your country, wherever you are, who write about hedge funds all the time. We can become collectively active through associations and PR agencies, but just picking up the phone and giving these people more information, more background can make a big difference.

Matthias Knab



Hedge fund managers need to understand that these mainstream media are in the business of selling. Every day, they need to produce and sell stories. On the other hand, they do not have the overview or the complete picture. Today for example, we discussed how hedge fund managers have much more detailed information on markets or risk factors. In most cases, the journalists do not have the insights, they do not know the stories, they do not have the analysis.

This is a huge opportunity to build a relationship. If you do your homework, there are probably only about ten or twelve people in your country, wherever you are, who write about hedge funds all the time. We can become collectively active through associations and PR agencies, but just picking up the phone and giving these people more information, more background, can make a big difference.