



Opalesque Roundtable Series '15

ZURICH

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Editor's Note

The Hazard of the Uneducated Client

Today most investors perform a thorough legal and organizational due diligence before investing into a hedge fund or CTA. However, some managers believe that it is to a certain extent the duty of the manager to make sure that a very proper strategy due diligence is performed on top of those, because it can totally backfire on them if this is not done. If you mis-sell your fund to a client, that client will run away when performance is bad.

"I remember a number of years ago we had a big client from overseas coming in, and their first on-site strategy due diligence was done with three people for eight hours. Again, that was only about the strategy. This has now become more common that you get these team sizes, and they spend the day in your office just talking about your investment strategy. Those meetings are of course no pitch meetings but take place when it's more or less clear that they are probably going to invest with you. So it just shows you the level of comfort that bigger clients want to get and I think should get with the strategy before they actually make the allocation. Because it ensures that if they invest, it's a fully educated decision", says Karsten Schroeder from Amplitude Capital.

Schroeder believes it is as important for a fund manager to select the client as it is for a client to select the manager. Selecting their investors and making sure a proper strategy due diligence was performed has very positively contributed to Amplitude's growth and stability: *"We had no net outflows in any year since we have been around. Every year we had a new peak AUM. This is not because our returns were so incredibly amazing, I have to give the vast majority of the credit to our client base for staying with us and for having or developing that good understanding of what's going on in our fund and in the markets."*

Manager Selection: Are smaller investors doomed to make inferior calls?

Looking at how these institutions make a proper investment decision and spend probably a quarter of a million dollars on due diligence cost, the question is really how can smaller investors get close to that type of decision making? That poses an extremely high challenge to them, because in the end they will never get the transparency and the level of information. In most cases they simply do not have the resources. Instead, they tend to be backward looking and pay a lot of attention on past track records, and that means they are chasing returns. So by definition, they will make inferior calls.

That is the spot where an intermediary can step in and add value, or a very well-managed fund of funds or a really good private banking solution. They should be able to do this job almost at the level how a large pension fund would do it, and then offer a tailor-made solution to clients. *"Unfortunately, there are very few that do that successfully. So I really think that here is some real demand coming through, because you cannot just tell your high net-worths or ultra high net-worths, 'this is the list of funds we have on our platform, and that is their performance, what do you want to pick?' I mean, such a 'model' is really off the mark, it's just inconceivable you can successfully invest in that way",* Schroeder concludes.

"Huge demand": New models for emerging managers

The current environment has raised the bar and created extreme barriers to entry for smaller and emerging managers wanting to set up shop and launch new funds and strategies. But the industry is coming up with innovative platform solutions like the "House of Funds" from Swiss Hedge Capital where talents or existing funds can start or expand their business under their regulated structure. Not only will Swiss Hedge Capital offer the usage of their legal and operational infrastructure to launch new funds, but they also open up their whole investor base for the onboarding manager. This "sharing a platform" solution is seen as a win-win for the fund manager, as he becomes regulated in a timely and efficient manner with an institutional-quality infrastructure and plenty of support, and for Swiss Hedge who can efficiently diversify their business.

The Opalesque 2015 Zurich Roundtable, sponsored by Eurex and IDS, took place end of 2014 in the office of Eurex Zurich with:

1. Patrick Burger, [Partner & Deputy CIO, Swiss Hedge Capital](#)
2. Karim Atallah, [Head of Prime Services for Switzerland, Credit Suisse](#)
3. Karsten Schroeder, [CEO, Amplitude Capital](#)
4. Matthias Lindenmayer, [Head of Sales and Marketing, Rasini Fairway Capital](#)
5. Nils Beitlich, [Head Hedge Fund Strategy, UBS Wealth Management](#)
6. Christophe Kuenzler, [Director, Capital Introductions, Credit Suisse](#)
7. Markus-Alexander Flesch, [Head Sales and Marketing, Eurex Zurich](#)
8. Ian Hamilton, [CEO, Investment Data Service Group \(IDS\)](#)

The group also discussed:

- Over the last two years, a remarkable number of very high caliber, very talented CIOs have decided to set up alternative investment management company in Switzerland. What benefits and challenges do they face?
- Why hedge funds and alternative investments are not a boutique style industry anymore
- Amnesia: As 2008 seems like a lifetime ago, short-term-memoried investors are loading up heavy beta strategies again. How will it end?
- Rasini Fairway announces dedicated seeding vehicle: A fund of emerging managers
- Why the regulatory vacuum between FINMA and EMIR for different significant timelines results in a clear discrimination of some Swiss players
- Are emerging managers really well advised to set up shop in a costly “standard location” like Mayfair?
- How to create smart and fair fee arrangements
- Hedge fund replication and risk premie: mechanical replication strategies in demand
- How can global players benefit from the new Eurex Clearing House in Asia (ECAL)?
- Why the rise of UCITS is even outdone by managed accounts

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Patrick Burger, Markus Flesch, Nils Beitlich, Ian Hamilton,
Matthias Lindenmayer, Karsten Schroeder, Karim Atallah, Christophe Kuenzler.

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Introduction

Christophe Kuenzler
Credit Suisse Prime Brokerage

My name is Christophe Kuenzler. I work for Credit Suisse IB Prime Services and I look after capital introductions in Switzerland, Germany, and the Nordics.

Karim Atallah
Credit Suisse Switzerland

My name is Karim Atallah. I am in charge of IB Prime Services and Capital Services at Credit Suisse Switzerland.

Karsten Schroeder
Amplitude Capital

I am Karsten Schroeder. I run Amplitude Capital. We are a \$2 billion short-term CTA.

Matthias Lindenmayer
Rasini Fairway Capital AG

My name is Matthias Lindenmayer, I am in charge of Business Development with Rasini Fairway Capital AG, Zürich. Our firm was founded in 1992. We are part of an independent group with presences in Zurich and London.

Our business has 2 core activities: Through our Luxembourg platforms sophisticated investors get access to single manager hedge fund strategies which are managed according to the UCITS IV directive. The other business area is the management of alternative investment portfolios and fund of hedge funds, where some of our products never experienced a down year since inception.

Nils Beitlich
UBS Wealth Management

My name is Nils Beitlich. I work for UBS Wealth Management where I am responsible for the hedge fund strategy within the Chief Investment Office.

Markus Flesch
Eurex

My name is Markus Flesch. I am running the Eurex operation here in Switzerland as well as in Italy and Turkey.

Patrick Burger
Swiss Hedge Capital

My name is Patrick Burger. I am a Partner and Fund Manager at Swiss Hedge Capital. Founded in 2004, we are a single fund manager based in Zurich. We manage an offshore fund and a UCITS fund applying the same investment strategy.

We trade very actively and are concentrated on market themes. Our aim is to generate absolute returns with a negative correlation to market trends. Since 2011 we have been regulated by FINMA. During the last 10 years we built a successful track record and won the Eurohedge Award in 2008 and were nominated again in 2011. We also founded the new "House of Funds" department at the beginning of 2014 which is focused on integrating new strategies and expanding our range of fund options.

Ian Hamilton
IDS Group

My name is Ian Hamilton. I am representing the IDS Group, which is fund administration company, but I also wear another hat as Chairman of Scotstone Investments, an investment house which sponsors and assists smaller fund managers through our umbrella structures in Malta and also other jurisdictions.

70

percent of the world's surface is covered by water.



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Karsten Schroeder: 2014 has been the recovery year for us, after quants and CTAs have had a couple of tough years post-2009, for all sorts of reasons, as we know. During that time, CTAs have been suffering a lot, you could even say they have been discredited by many investors around the globe, and I believe that 2013 and 2014 have probably been the only two years in history, maybe apart from 2009, where we have really seen outflows from the space in general at a significant scale.

From that perspective it was good that we got a turnaround this year with a range of big funds in decent positive territory. I also think that CTAs are probably number two or number one of the different hedge fund strategy indices in 2014.

But let me also add that I find it quite unfortunate having to experience this every time and over and over again how short-term-memored investors are. 2008 seems like a lifetime ago and you see how investors are loading up on heavy beta strategies. We have particularly seen that in Asia. But luckily, as I said, 2014 was a kind of a turnaround and we see more interest in our strategy again, which is good, so we hope we can continue and deliver also in 2015.

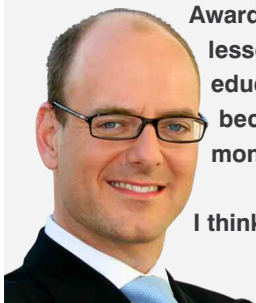
In terms of asset flows in our firm, we were lucky enough not to have been faced with those redemptions. That is also based on the nature of our client base. I think this has been a process that has been going on globally for the last four or five years where you could see a significant change towards institutional clients in the hedge fund world. I see this as an expression of the overall maturing of the industry that allows firms to have more concentrated, more institutional clients, and fewer family offices and private investors.

That means hedge funds and alternative investments is not a boutique style industry anymore, which is also part of, or a consequence of significantly higher regulatory load, which I guess we will cover today as well. That kind of sums it up how 2014 has been for us. So overall, I would say a good year, with positive returns.



Karsten Schroeder: Yeah, it's not too bad and on top of that our Klassik program is nominated for the EuroHedge Award this year. I am also very proud of our investors – very stable, very sticky investors. I think that's the lesson we learned, particularly in the last three years where we really focused on working together with educated clients, who have teams that understand strategies. That is in particular important for us because we are short-term traders and therefore capacity constrained. We have no interest in hot money whatsoever.

I think it is as important for a fund manager to select the client as it is for a client to select the manager.



It may sound weird, but I would say this is one of the big lessons we have learned. We had no net outflows in any year since we have been around. Every year we had a new peak AUM. This is not because our returns were so incredibly amazing, I have to give the vast majority of the credit to our client base for staying with us and for having or developing that good understanding of what's going on in our fund and in the markets.

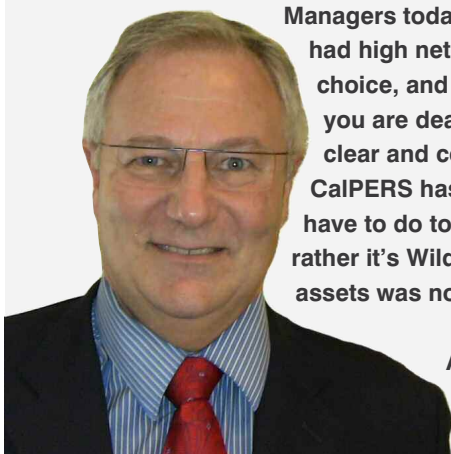
Matthias Knab

Did you turn away investors?

Karsten Schroeder: Yes, we have in the past, absolutely! We learned our lesson in the end of 2008 when we saw who redeemed. There is so much return-chasing capital in this world, and I think that's the worst decision investors can make, trying to time strategies, because almost nobody gets it right.



Ian Hamilton: Talking about the institutionalization of investors, I write a monthly column for Opalesque's monthly New Managers publication that is obviously focused on emerging managers. One topic I have been covering is of the institutionalization of investors. My column headline is 'He who pays the piper calls the tune'.



Managers today need to understand this changed dynamic Karsten also referred to. When you had high net-worth individuals coming into funds, then the high net-worth individual made the choice, and the investment deal was between him and the fund manager. With an institution, you are dealing with somebody whose job is on the line, and he makes sure that everything is clear and concise, and hence all that in-depth reporting. It's also one of the reasons why CalPERS has pulled out of the market after having decided that the amount of extra work they have to do to monitor hedge funds. Particularly U.S. funds, where they are not regulated and rather it's Wild West compared to a lot of other places. CalPERS extra work for a mere 4% of their assets was not worth it.

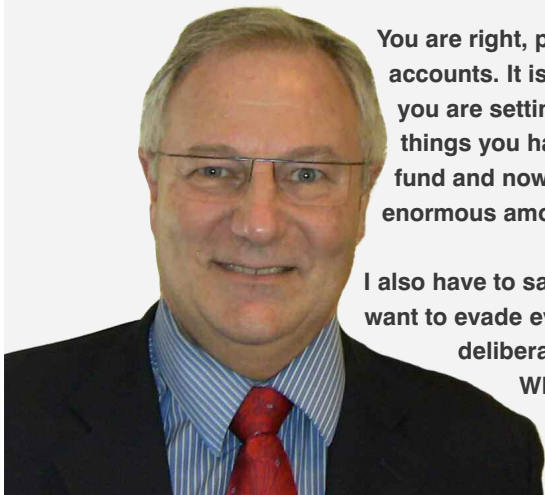
All of this will have a couple of ramifications. Hedge funds who are not able to deliver what today's investors are asking for will struggle in the end.

Karim Atallah: As a demonstration of the changing landscape, in 2014 the number of onshore launches has been muted. The industry publications refer to circa 30 new onshore launches across Europe, which is small in comparison to prior years.

But I also think that this number does not reflect a true picture of the entire landscape, where we also see a clear resurgence from the investor side and also willingness from managers for structures like funds of one and managed accounts in addition to UCITS funds that are not factored in.



Ian Hamilton: It's interesting what you say. I think AIFMD has been a nightmare, – the confusion with regulators, et cetera, has held back an enormous amount of funds from launching.



You are right, particularly in Switzerland we have seen a lot of interest for managed accounts. It is an easier way to set up, and it's far less regulated and controlled, while if you are setting up a fund in Luxembourg, Malta, or Dublin, you have got so many extra things you have to do. Also, it used to take three to four weeks in Malta to launch a fund and now it can take four or five months. The banking system as well has caused enormous amount of problems in opening new fund bank accounts.

I also have to say that I have turned away quite a few Swiss people over the last year who want to evade every form of regulation. I am not going to deal with what I would call deliberate evasion of all the regulations that protect the interest of the investor.

What IDS stands for on the administration side and Scotstone on the fund structure side is protection of investors.

Karim Atallah: On the AIFMD front, the positive thing is that, at least, we have now moved from the legislation stage to the implementation stage, with the result that finally there is much more certainty about its impact towards hedge funds and also the other industry participants.

I believe that most of us are now actually looking into real processes to cater for AIFMD, as opposed to the first half of 2014 and prior when we could only just discuss the possible options.



Karsten Schroeder: Just to add some thoughts about regulation. I think that the vast majority of the regulations are actually not protecting investors' interests. Rather, it almost appears to me that what we are dealing with is the result of a giant lobbying from auditing firms and law firms, whoever gets involved with writing up these legislations, because for the most part I see this as just creating a cost burden on the side of the manager.

Of course, we all have to comply with it and we will. I think it has nothing to do actually with bringing proper routines in a business, and I would include the issue of reporting as well here.

You could even argue that even investors see it that way and vote with their feet – why do you think we have such a heavy tendency towards managed accounts? To me that also shows that investors, whenever they can, and when the strategy is conducive to it, are not comfortable with normally regulated structures. They rather want to do it themselves.



Point in case, if you look at our fund, for example, before 2008 we had like 80%, or even 90% of the assets in the fund; now we have more than 95% of the assets in managed accounts. That is because those assets are from large institutional clients, and they don't want to go through fund structures but want to have their own vehicle, because whatever protection or transparency is given through the standard structures is not what they feel comfortable with.

That is why I don't think that regulation is really helping or addressing the investors' needs, at least from the institutional side. The whole developments we have been through seems to me more a political game rather than actually creating a fair and stable environment from an investor or fund manager's perspective.

Matthias Lindenmayer: One has to acknowledge it's a train which does not stop and that it has become a new reality. My impression is that there are still a few fund managers out there who are a bit in denial about the developments on the regulatory front.

I appreciate Karsten's point, however we feel that regulation can also be quite a powerful driver for some allocators to have a fresh look at the alternative space. For instance if you look at Germany, many institutions were not really allocating significantly in the past; but now, with the rise of Alternative UCITS, this investor base is coming in and is creating significant opportunities.

Also, if we look at our flows in Switzerland, we see growth and fresh inflows from private banks and from larger asset managers. These investors demand a more liquid and regulated vehicle.

I would like to point out though that certain strategies, especially the ones focused on underlying instruments that are known for periods of absence of liquidity at certain times, should not be offered in a UCITS version and as such the Cayman or SIFs/QIFs will keep their "raison-d'être".

In terms of 2015, we will launch two additional single manager strategies through our UCITS platform. Both are in the long/short equity space and have impressive management teams. We also did quite a bit of work on the multi-manager side where we will launch a very innovative product soon.

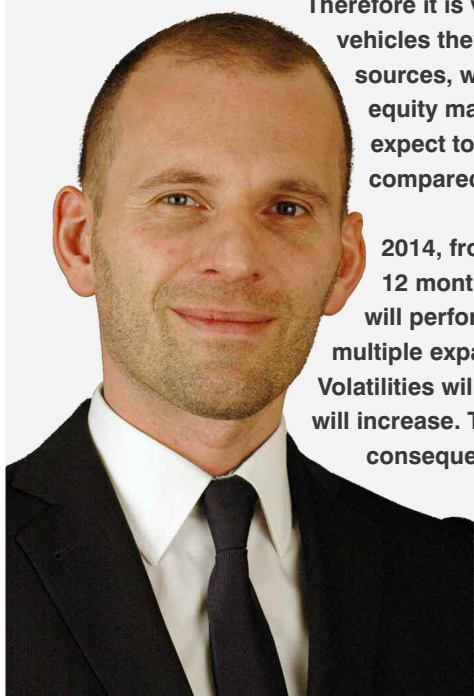


Nils Beitlich: I can only agree that investors are increasingly looking for more regulated products. However, regulation, particularly this year, has created a lot of disappointments in clients' mind, mostly for those clients who bought into UCITS structures but expected an offshore kind of performance. The main reason is that many investors are still not very well informed about the opportunities and limitations of UCITS. It is within our responsibility to educate our investors in order to avoid wrong expectations with regard to what is achievable under UCITS and what is not. Most important, investors in UCITS must understand that these more liquid structures come at a price - they cut off some of the alpha and even alternative beta sources, which historically provided the lion's share of uncorrelated returns.

Therefore it is very important to make clients aware that with UCITS and other more regulated vehicles they are now more correlated to the more liquid kind of beta and alternative beta sources, which sometimes, or like last year rather often, can go in tandem with normal equity markets, for instance. That in turn can lead to some disappointment, for those who expect to achieve with UCITS funds the same risk-return- and correlation- pattern compared to similar offshore funds.

2014, from a strategy point of view was the year of surprises. If we would have sat here 12 months ago and would have asked what would be the best strategy in 2014 - which will perform and which not, most of us would have said, "well, look, we are running out of multiple expansion driven equity market into more earnings growth focused markets. Volatilities will probably head higher and valuation and consequently performance dispersion will increase. This clearly creates opportunities for fundamental stock pickers, and consequently equity hedge will be one of the main strategies investors should focus on."

The next one would probably have said, "hey, we have seen all this M&A activity and expect it to continue. With all this growth focus and most other catalysts for corporate activity in place, M&A will be the next big thing. So we see a lot of good performance coming from M&A and special situations focused event driven strategies."



And then you had a few people also saying that they don't see many strong trends coming up in 2014, so managed futures might be not the best strategy to be invested in.

Now, for me and most other strategists who have a top-down assessment of the hedge fund world, 2014 was clearly a surprise. Equity hedge, obviously one of the most preferred strategies in 2014 underperformed both, its own long term average as well as most other hedge fund strategies.

The same picture for event-driven, even with every catalyst in place. Two big failures were enough to trigger a strong unwinding followed by a sharp increase in risk-spreads across the full merger arbitrage universe.

Relative value, which we thought to see headwinds from tight spreads and the ultra-low yield environment, worked quite well, at least some of the strategies. Finally, after a stretch of subdued returns, systematic trading funds have been performing extraordinarily well.

So I think for me, from a strategic point of view, this shows how difficult it sometimes gets to correctly anticipate hedge fund strategy performances based on our traditional market views.

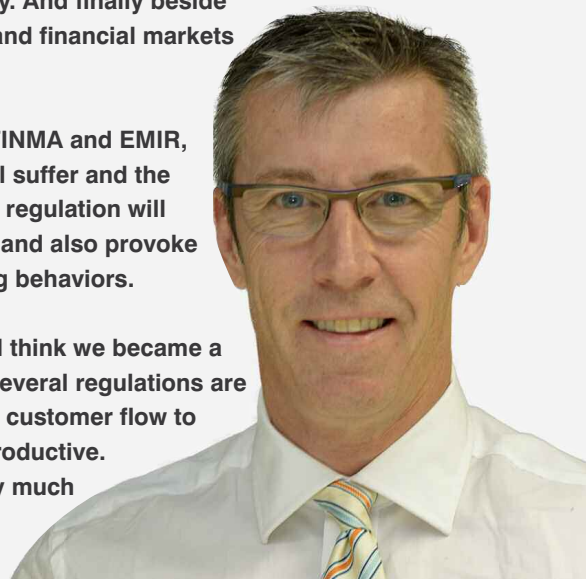
Nevertheless, I think 2014 also has revealed some positives. I think one really positive, besides the fact that trend followers are performing again, is the renaissance of alternative beta. Something which everybody thought to be dead and nobody would ever try to sell again after it didn't work out some years ago, strongly returned into the forefront of investors' minds. This is not surprising – in the current low-yielding environment, to be honest, people are starting to look again on fee structures, and whether these are justified for the returns they deliver. Is it really alpha or is it rather alternative beta, and if alt. beta, can I get it cheaper?

Markus Flesch: I think we are having a very interesting discussion on the different consequences of regulation as they relate to managers and investors. From the exchange perspective I agree that regulation is supposed to offer transparency, being the essential part of investor-protection. However, I think the regulator, be it here in Switzerland, or in Europe, will take away the crucial momentum, by operating in a rather uncoordinated way, just looking at their own jurisdiction, even though investors are operating globally.

That does not refer to the U.S. since Dodd-Frank is well-established and timely “progressed”. I'm convinced all the different institutional clients are well aware of the duty and the scope of the applicable regulation. However, especially here in Europe and particularly in Switzerland, I think the regulator would be well advised not only to give clearer statements, but give a much more reliable regulatory guidance. By extending deadlines, providing vague insights and scoping, regulators can take a lot of momentum away, losing credibility. And finally beside transparency, credibility is by far the most precious asset a regulator and financial markets are dealing with.

At the end of the day, if there is a significant regulatory drift between FINMA and EMIR, be it content-wise or time-wise, financial markets will suffer, clients will suffer and the good faith in “necessary” regulation will fade. Thus the conviction that regulation will lead to a better – more trustworthy and stable – environment will fade, and also provoke end clients to stick to non-transparent and therefore more risky trading behaviors.

At least from an exchange perspective, it is very challenging because I think we became a “regulator's exchange”, but the longer these kind of uncertainties on several regulations are hanging as kind of Sword of Damocles over the market, this can push customer flow to unregulated trading platforms like MTS, which is absolutely counterproductive. Therefore, an alignment across the European regulators would be very much advisable.



Patrick Burger: We can spend a lot of time arguing over the pros and cons of regulations and what is good and bad about them, but fact is that they are here and that they will stay and even increase over the foreseeable future. So regulation is a reality we all must deal with.

We made our regulatory work in 2011 when we became FINMA-regulated and we found that it helps our business in the sense that we are able to accommodate different investor types, also those who, as Matthias Lindenmayer said before, are looking at onshore regulated companies and structures.

When we talk about the effects of regulation, we probably also have to include the broader actions of the Central Banks, the different policy makers and what the politicians are doing. In essence, they are all to a certain extent taking away the down risk. But, when somebody has the impression that he can invest in something which is regulated and that consequently there would be no risk in that, I think this is definitely a false conclusion.

Nevertheless, we see that there is still a huge interest from talented managers to start their own business. But the times were you could launch a fund with two Bloomberg terminals and a credit card are categorically over.

On the back of all those changes in the environment in the fund business we launched the House of Funds platform, where talents or existing funds can start or expand their business under the regulated hat. We offer them the usage of our platform to launch their funds, to grow and expand, and to open up the whole investor base for them. With this “sharing a platform” solution we have created a win-win situation: for the fund manager, as he becomes regulated in a timely and efficient manner with an institutional-quality infrastructure, and for us, as we get a diversification of our business. The demand for such a solution is huge.

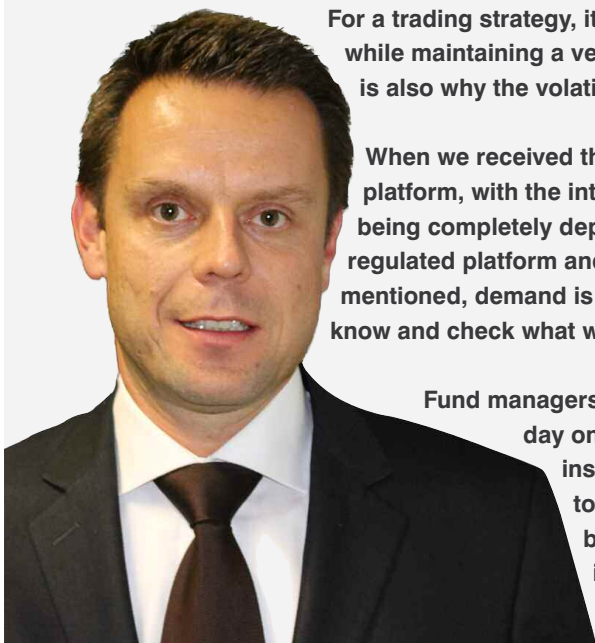
As I said at the beginning, we manage long/short equity funds, we only ran this single strategy so far. And I can agree with Karsten in the sense that we also have had our challenges over the last two years and were kind of in a recovery mode in 2014. In 2008 we won the EuroHedge Award and were short-listed again in 2011, but then in 2012 we had our first down year ever, which I think was clearly on the back of the Central Bank policies.

The famous Draghi speech, “Whatever it takes” in July 2012 changed things a great deal. The Central Bank policy has certainly mitigated downside risk in the market. We ran a momentum-based strategy in the sense of buying new highs and selling new lows, and guess what, every time we went with momentum, we got stopped out. As a consequence we adjusted our trading strategy to fewer momentum based positions and a bit longer holding periods where we also use futures exposure less directional and more for hedging.

For a trading strategy, it is vital that you have the capability to quickly recover and grow back, while maintaining a very disciplined approach to risk management, which we adhere to. This is also why the volatility of our funds is quite low.

When we received the FINMA license in 2011, we had already built up a sophisticated platform, with the intention and capability to exploit it at a later stage. Therefore, no longer being completely dependent on a single strategy, we decided to utilize our FINMA-regulated platform and our operational capability to diversify our product offering. As I mentioned, demand is quite high, from new funds but also from existing funds. They want to know and check what we are doing and what we can offer them.

Fund managers recognize more and more that if you are not institutional quality from day one on, you are not going to make it. Funds need to demonstrate institutional-grade standards to attract new money and to have the ability to grow. As operational and regulatory costs continue to rise, on the back of high level regulatory requirements and a high degree of investor due diligence, small managers are forced to outsource middle and back office functions or joining a platform.



Matthias Knab

I will give Christophe the opportunity to share with us what he is seeing from the demand side.

Christophe Kuenzler: We cover different markets out of Switzerland, but maybe I can comment about Switzerland in terms of the demand that we see.

I am surprised to still see many investors questioning the UCITS model. Apart from a few exceptions, which have invested heavily in UCITS, many traditional offshore investors are reluctant to move into UCITS and express concerns on the artificial creation of liquidity. This is because while some strategies like long/short equity strategies are obviously pretty well suited for UCITS, other strategies, for example credit or more esoteric strategies, offer a more questionable liquidity profile.

I was particularly surprised by the banks as I expected that every single private bank would be jumping into UCITS just because in a way they address the regulatory and all tax issues that we know of. And while many private banks have actually launched UCITS fund of funds over the past years, those have never really picked up. I am not that clear whether this is a question of the fund of funds model or related to the nature of UCITS, but in my experience investors, at least here in Switzerland, haven't shown as much appetite for UCITS as I would have expected.



Matthias Lindenmayer: We see a bit of different picture. In particular banks these days allocate now directly into single manager hedge funds. This would have been unthinkable a few years ago, and UCITS is the catalyst making this possible.

Swiss pension funds are still a bit hesitant with the asset class – gates, side pockets and the Madoff trauma are still very present.

In terms of the fund of funds I am convinced that they can still add value, however the old access game is over.

One area we are currently having a closer look at is to launch a dedicated seeding vehicle, so a fund of emerging managers funds.



Matthias Knab

Have you done seeding?

Matthias Lindenmayer

Yes, with a track record of more than 20 years. So, one can argue that we have seen a lot. Fortunately, we didn't experience any major accidents.

We still believe that the hedge fund industry is able to attract the smartest people within the investment management universe.

Karsten Schroeder: Coming back to UCITS for a moment, we have looked into UCITS. First of all, I just would like to reiterate that UCITS by no means create an additional layer of protection for an investor, and that is actually how also a lot of the large institutional investors see it. You just pay more fees, and you may be restricted in the investment universe because certain things can't be replicated. You also have additional counterparty risk, because when the bank or the structure you're having to create a certain exposure blows up, then that's your problem as well.

So from an investor perspective you can now go and choose, but for them there's literally no benefit whatsoever to go into UCITS, hence all big offshore investors shied away from it.

And then on top of that, there are obviously strategies which are conducive to it, which are easy to do, but you will always have an adverse selection, because funds that are in a position to select their investors will not go for the UCITS structure, whereas funds that are desperate for assets will very likely go for these structures. That is a big downside for an investor base who is restricted by definition or by regulation to investing only into UCITS. They will not have the access to the full investment universe and they will probably not have access to the best managers.



Matthias Lindenmayer: Fact is that the Alternative UCITS industry was non-existent a few years ago and has now attracted more than \$200 billion. Certain managers have to accept that regulation is an additional dimension when it comes to investment decisions. The structural benefits of Alternative UCITS are striking in our view.

Again, we strongly believe that – in the liquid space – Alternative UCITS are equal to their unregulated cousins. Our view is also backed by scientific research. While the UCITS universe is still relatively small compared to offshore funds, I am not sure I follow your argument that the quality of UCITS managers is by definition inferior. For example, if you look at very large, established hedge funds in the world, in particular U.S. managers are now offering a UCITS version to investors.



Karsten Schroeder

Sure, but again, having a managed account is still much safer.

Ian Hamilton: I actually sort of agree on both sides.

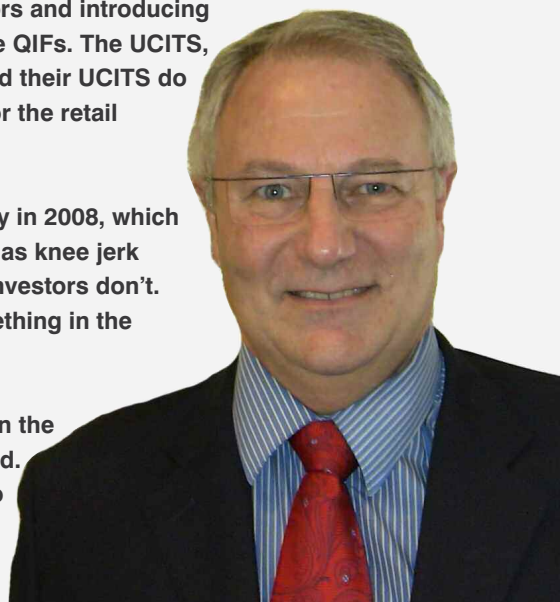
Firstly, the one thing with regulation coming in, it would be nice when regulators have certainty. At the moment, I don't think there's one regulator in any jurisdiction who actually even understands what they are doing. So just from that side it will take some time before there's uniformity and a real understanding of what is actually being created through regulation.

When it comes to the fund of funds, I view that model as being fine for the less-sophisticated type of investor. We already talked about that, a lot of our investors now happen to be large institutions and they themselves can actually replicate a fund of funds and choose the investments they want to because they have the teams to be able to do that.

UCITS are another story. I have been involved this last year with regulators and introducing UCITS and QIFS into South Africa. The institutions are going to go for the QIFs. The UCITS, and this is where the danger is, and I hear Paulson and all these guys and their UCITS do not appeal to the sophisticated institutional investor. UCITS are mainly for the retail investor.

But beware the retail market! You just have to look what happened to Italy in 2008, which had funds of hedge funds aimed at the retail market. The retail investor has knee jerk reactions to news headlines. Institutional investors actually stay. Retail investors don't. They are always looking for the highest return. The moment there's something in the newspaper that says, oh, hedge funds are in trouble, they flee.

It is not going to be good for those fund managers who are relying just on the UCITS structure and actually putting their all their clients in the same fund. You are co-mingling institutions with retail investors and you are going to have a lot of problems if there are any dips on that in the market.



Christophe Kuenzler: Probably the one visible advantage that we have seen with UCITS is that it has brought more transparency on the fees of hedge funds and also significantly brought down the fees managers can charge, because it's much more difficult to come with a two-and-twenty structure and the pass-through of expenses in a UCITS format. Therefore we see more and more UCITS charging much lower fees than they do with their flagship offshore fund.

Karim Atallah: I mentioned some details on how the regulator in Malta is now taking more time to approve a fund. That is also the case in Switzerland where, for example, the FINMA process may take six to nine months and sometimes even longer.

But interestingly, this has not actually deterred the number of startups in Switzerland. Over the last 18 months to two years in particular, a remarkable number of very high caliber, very talented CIOs have decided to set up shop in Switzerland. They decided to take the time to put in place their FINMA process, and ultimately launched their firms. Without mentioning specific names they have been very successful and some of them have had the best returns within their strategy group in 2014.



Matthias Knab

These are people coming from outside of Switzerland and moving into Switzerland to set up an alternative investment management company here?

Karim Atallah: Yes, indeed, so I don't think that regulations, or FINMA process specifically, has deterred them. On the contrary, they viewed it as a necessary cost, and they paid that additional cost, they hired the right lawyers and the right service providers. Myself and Christophe have been working with a number of those managers putting them in touch with the right service providers to start-up their businesses.



Coming back to UCITS, we could debate pros and cons, liquidity and what you can execute within them; however, as Matthias also referred to, there is a segment of the investor universe which, just simply, cannot buy offshore funds. This segment has no alternative except UCITS and it includes the insurance companies, and some of the pensions. It's the only liquid alternative asset class they can actually own and put into their portfolios.

Two years ago, my boss had said that UCITS stood for "You Cannot Ignore It". At our most recent thought leadership conference he told the audience that UCITS now stand for "You Cannot Ignore It Anymore."

If you are not going to look into them, then you will simply lose out on a certain segment of investors which will be quite important going forward.

Patrick Burger: We all know the pressure Switzerland's financial industry is under, in particular the banks. There is a lot of competitive pressure, and therefore we have to be innovative. I actually do believe Switzerland is attractive and innovative, especially Zurich.

New managers also benefit from a de-minimis clause that allows them to launch without regulation if they are below CHF 100 million. I think this is great that we have this option, and I hope it will not fall. This definitely gives young managers the opportunity to launch. Nevertheless, without any proper regulation and an institutional set-up, it is nearly impossible to increase assets.

One more thing about UCITS: while UCITS are typically considered to be a retail product, it's actually not always one. We run an offshore fund as well as a UCITS fund, and we do not have one retail investor in either of them. So when you are managing a UCITS fund that does not necessarily mean that you are entering the retail business.



Ian Hamilton: I appreciate your comment, there are going to be Institutions that want a UCITS. The institutions who cannot invest in a Cayman structure are looking at UCITS, but they can also have a look at other vehicles like Qualified Investor Funds (QIFs).

As Christophe said, UCITS might have brought bigger transparency regarding fees and other disclosures, but these aspects can in fact also be dealt with without having regulations. The investor side is driving for those developments any way. Fund managers who are clear and transparent with their costs are actually attracting money, while institutions walk away from those who are trying to hide things and not properly disclose their fees and their fees structures. I have read some comments where certain institutions have said they reject something like seven out of ten funds, not because of performance, but because of the lack of transparency and governance.

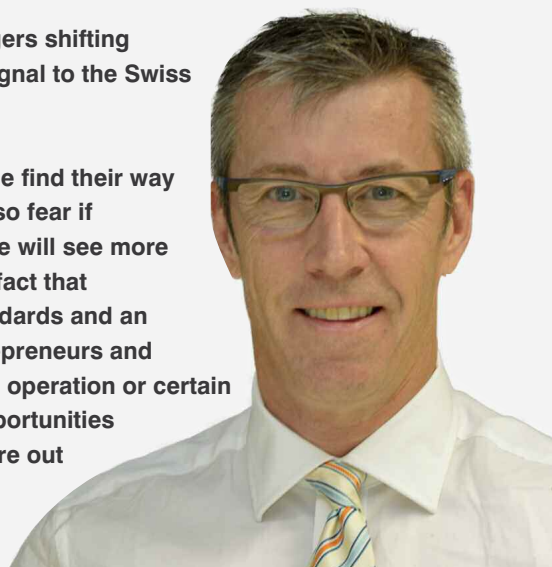


I found Karim's comment about foreigners setting up in Switzerland quite interesting. There has been a lot of talk in the last couple of years that people would be doing that. But, at the same time we have seen a lot of Swiss managers who are moving out of the country and set up elsewhere. I have seen it in Malta, where some of them have tried there. But it's not people we would want to deal with as I alluded to earlier on, from the point they do not want to be transparent.

Markus Fleisch: It is of course very positive for Switzerland when established people and companies come here and enrich the financial market place. But I am also a bit surprised by this observation since my experience would point to the opposite, mostly because of the already mentioned regulatory vacuum between FINMA and EMIR for different significant timelines, which unfortunately results in a clear discrimination of some Swiss players who have exposure to the Swiss market as well as the European market.

I see more and more bigger clients like the larger banks and asset managers shifting business to the London marketplace which is definitely a very negative signal to the Swiss markets and newcomers searching for business opportunities

However, I hope that this is turning, so I am very happy when I hear people find their way to Switzerland, because Switzerland is a very fertile environment. But I also fear if regulations are still creating such type of uncertainties or misbalances, we will see more and more of the larger players just leaving the Swiss market, despite the fact that Switzerland offers tax benefits, stable political environment, high life standards and an international, multicultural mindset which are a tremendous USP for entrepreneurs and people looking for business opportunities. The issue is that once such an operation or certain units have left Switzerland, they usually also move the money and the opportunities across, and history shows that once those capabilities and work places are out of the country, they almost never come back.



Matthias Knab

Karim, regarding the foreigners setting up now in Switzerland, what type of strategies are they running? And how will they go about accessing E.U. based investors from Switzerland, as Switzerland is not part of the E.U.?

Karim Atallah: We are seeing a diversity of strategies like macro, some very good equity long/short managers and event-driven specialists.

Why they are attracted to Zurich? There are various benefits.

The economic advantage of cheaper office space. Then, the benefit in Zurich that you get better corporate access. Because London or NY have such big number of hedge funds, when companies are coming through the UK, as a fund manager you are lucky to get into a group lunch with a company CFO, whereas if you are based in Zurich and you are one of the key players, you get a one-on-one, which is definitely a benefit.

The technological infrastructure in Zurich is also very easy to implement. There are service providers who can set up and connect an office extremely quickly.



There are also challenges, for example salaries for operations personnel might be higher. Also, sourcing portfolio managers and traders in Zurich has been difficult, because the banks are not producing many of them anymore. Back in the '90s, all the major international institutions had a presence along the Bahnhofstrasse or elsewhere in the centre of Zurich, all the US and European banks and some Japanese institutions had a presence on the ground with dealing rooms and they were producing financial experts, be it on equity, foreign exchange or macro prop. That is not the case anymore, so that is a challenge. To get talented traders, you have to sometimes relocate them from elsewhere or hire them from existing funds.

So, Switzerland also has its challenges, without a doubt, but it also has its advantages, and we have seen those too.

Ian Hamilton: Having spent part of last week in Mayfair, if I were to invest with a hedge fund manager, I would not select one that has his offices in Mayfair. There is absolutely no reason why they should be in Mayfair. Hedge fund managers don't have to be clones sitting around the same little expensive location.

As of lately you hedge fund managers are competing for accommodation with the Russians and Arabs who have moved in there, pushing the rents further up, or buying old offices and turning them back into houses.

But as I said, hedge fund managers who choose their offices to be in specific expensive locations mustn't complain about the costs, because they may be overlooking other, more economic options.

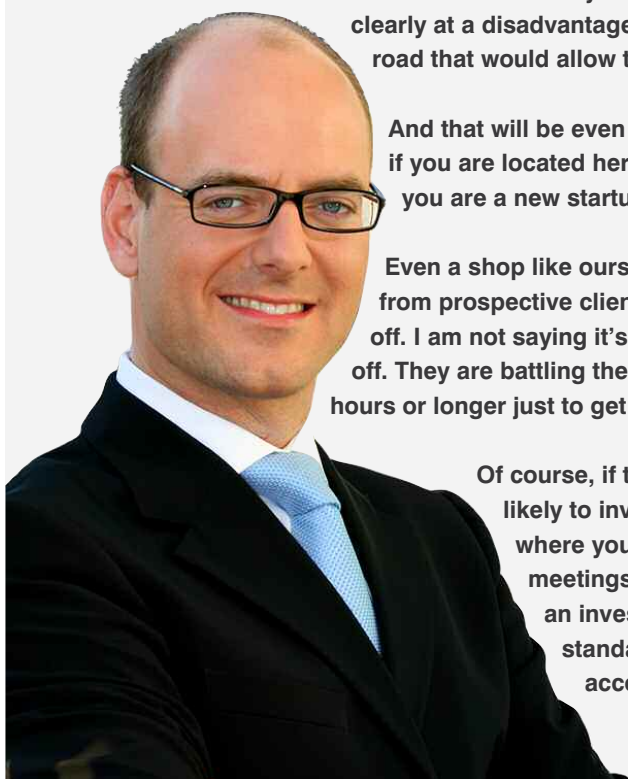


Karsten Schroeder: I would actually slightly disagree with that. I mean, it's not too long ago when we launched, it was ten years ago, but still, the problem you will face still today is that international clients will have a pretty packed schedule. That means if you are off the beaten track and you are a small manager, you will be clearly at a disadvantage because for them to see you won't be just another step into a side road that would allow them to squeeze in your meeting.

And that will be even worse if you locate yourself outside London. To tell the truth, even if you are located here in Zurich, you may be fine if you are an established fund, but if you are a new startup, this becomes a real problem.

Even a shop like ours can sometimes experience that when we talk about on-site visits from prospective clients: they will all go to London while Switzerland is already a little bit off. I am not saying it's totally off the beaten track, but for them, the location is a little bit off. They are battling their own logistics and time restraints, so if they need two or three hours or longer just to get to you, it's a problem for them.

Of course, if the investor is already at a stage where they say, "okay, we are very likely to invest and perform due diligence," then of course it doesn't matter where you are. But to get to that stage, you obviously have to have multiple meetings beforehand. And as you know, an on-site is absolutely critical for an investment, and I think for small fund being not in what I would call that standard location, it doesn't matter how flashy they are, they have to be accessible, this is critical.



I also believe that for now Switzerland has not reached the critical size yet to become a standard visiting location for overseas institutional clients. Unless they have an existing manager here or a large ticket that they are going to place, they will not just stop by.

Matthias Knab

Karsten, you have a real success story to share. You set up a company in London and it worked well for you, right? And then I think before your firm was five years old you decided to move to Switzerland. Can you tell us more about your experience and motives?

Karsten Schroeder: For us, leaving London was driven very much through personal preferences, because we didn't want to live in a big city anymore, so we moved out to Switzerland.

But at the time when we set it up it was clear that we either go to London or to New York. It was out of question to go anywhere else. I mean, we did have our small little try in Germany, but I do have to thank the BaFin for putting out a clear statement. As I mentioned before, I also saw the German legislation was drafted up by large banks together with the BaFin, and when you take a closer look at them it becomes clear that they did not want to have a boutique hedge fund industry in Germany. Luckily, at the end of the day, it played out fine for us because we did not further pursue that route.

I have done hundreds and hundreds, even thousands of meetings in the beginning, so particularly in the first couple of years, and that only works if you are based somewhere where you can easily persuade clients to pay you a visit and just to get them into your office. Otherwise, you are left with the fact that you have to travel around and give them presentations. But that is never enough, and that is why it is so essential to get that on-site visit done. And I think if we would have not been in London, it would certainly have been a slower start.

So again, looking at my past and present experience, when a manager starts out I would strongly advise against setting up an office in a nonstandard location. I think it would slow your initial growth significantly down.



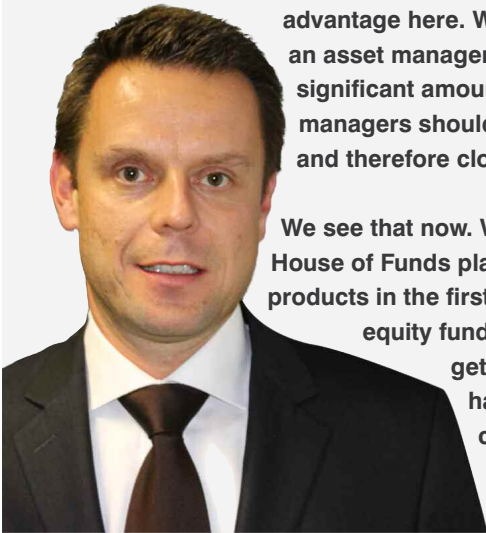
Matthias Knab

Patrick, what was your experience also having set up ten years ago in Switzerland?

Patrick Burger: Yes, we also launched ten years ago, but we need to have in mind that ten years ago was definitely a different era. We were able to launch from zero with a Cayman structure in roughly half a year. We started with an asset base which was comfortable for three people in the office and we could grow quite quickly.

But, as I said before, I think these times are categorically over. As Karsten also said, the amount of onsite visits you have to do and the degree and depth of the due diligence has dramatically increased.

So if you would first have to pass FINMA regulation and to launch a UCITS or a Swiss fund, it wouldn't be possible to go independent.



These standards are a “must have” today, and I do believe that for example UCITS offer a clear advantage here. When you can tell investors that you are regulated in Switzerland by FINMA as an asset manager of collective investment schemes and you are running a UCITS product, a significant amount of that due diligence work is already done. But I would agree that start up managers should aim to set up very close to or in one of the main European financial centers and therefore close to investors.

We see that now. We are doing a similar sort of process again right now with the offering of our House of Funds platform. We want to launch funds, and gladly, I think we can launch two new products in the first half of 2015. This will be a long/short biotech fund and a systematic long/short equity fund. They really start at zero and we have to travel around and make meetings. We get a lot of meetings because they already know that we are regulated, that we have done the whole process. A lot of their due diligence work is done when we can give them the paper that we are FINMA regulated and that we want to launch a UCITS product.

Ian Hamilton: From a totally different track, a lot of the funds and clients I work with see Zurich as the place to visit to find money.

I would also agree with Patrick that regulations do make it a lot easier for the investors, but then you may also run into the risk that investors become lazy because they think that because it is a regulated structure, they don't need to kick the tires properly.



Karsten Schroeder: That is probably right, but I believe there is much more to due diligence. When it comes to legal and organizational due diligence, it's very much a standard procedure that every big client runs through. But on top of that, I believe that it is also to a certain extent the duty of the manager to make sure that a very proper strategy due diligence is performed, because it can totally backfire on him if this is not done.



If you mis-sell your fund to a client, that client will run away when performance is bad. I remember a number of years ago we had a big client from overseas coming in, and their first on-site strategy due diligence was done with three people for eight hours. Again, that was only about the strategy.

This has now become more common that you get these team sizes, and they spend the day in your office just talking about your investment strategy. Those meetings are of course no pitch meetings but take place when it's more or less clear that they are probably going to invest with you.

So it just shows you the level of comfort that bigger clients want to get and I think should get with the strategy before they actually make the allocation. Because it ensures that if they invest, it's a fully educated decision.

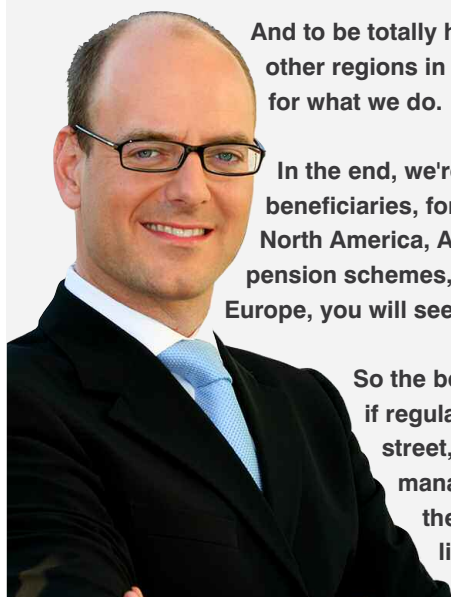
I think it was Ian who said that institutional investing is committee-driven today. If you deal with a family office, it's a single guy who may call the shots, depending on the size of the family office, but for a large pension or an endowment, it's a committee. That means a team of analysts would prepare the case for the committee to make the call, and nobody wants to waste anyone's time.

So the team will make sure that the case is prepared in a way that it's basically a walk-through once it gets in front of the committee. That is why I think having those levels of due diligence meetings is essential. It ensures you that you have a client for the long run.

Ian Hamilton: On the back of some of the recent Swiss referendums on free movement of people and labor, there was talk about the EU starting to block goods from Switzerland. I was asked to comment on that and I said, "well, that is nothing new, AIFMD is precisely the same, i.e. to block investment products from Switzerland." In my view, whether they are blocking watches or whether they are blocking financial services, the financial services are already affected by E.U. rules. So I was wondering how is this situation will affect the Swiss fund managers?



Karsten Schroeder: Let's put it like this, there's enough money in the world that you can find, and there are enough sophisticated investors around the world outside Continental Europe. So from our perspective, we do whatever regulation is necessary and whatever our lawyers and our accountants and auditors tell us to do. But we also feel that when we are going through the effort of complying with such increased levels of regulation, there has to be a clear demand for your product as well.



And to be totally honest with you, in terms of demand from Continental Europe, if you compare it to other regions in this world, we don't consider it as a major or significant area of investors, at least for what we do.

In the end, we're not making money for the institution or the pension fund, but for their beneficiaries, for the simple guy on the street. If you study the performance of pension funds in North America, Australia or somewhere else where you find the very professionally managed pension schemes, and you compare their performance to those of pension schemes in Central Europe, you will see a huge delta.

So the benefit in the end is going to the worker, the teacher, to the fireman, to whomever. So if regulators and politicians think that what they do actually helps the little guy on the street, it clearly does not. So it's not only that you shut a certain market down from a manager's perspective because they made it inaccessible, you actually shut it down for the pension schemes as well, because their investment universe becomes extremely limited.

Karim Atallah: I fully agree with Karsten. To his point, yes, there is a lot of money in Europe, but there are also bigger pots outside of the European landscape, without a doubt.

One area which we cover, as an example, is the Middle East, where there are big pockets of institutional investments. But also taking into consideration that those institutions' due diligence processes are much longer and more stringent than anything you can think of. Some of those institutions have due diligence processes that take 24 months, where in fact you are going through four or five rounds of due diligence before you even get to the shortlist.



So it is really tough, but then again those are big tickets and the people in charge take their jobs very, very seriously which is all credit to them and their investment philosophy into the space.

Also, when you look where the majority of emerging managers get acceleration capital, it is in most cases ultimately from the US. They may in some cases raise the funds in London, but in most cases, those are monies that are controlled out of the U.S., in one way or the other. There, the whole pension and endowment universe has been active over the last few years.

It all really underpins the fact that hedge funds have a future, and hopefully, if performance continues to be strong, it will be a good future.

Karsten Schroeder: I want to make one remark regarding fees, because we touched on that in the context of our UCITS discussion. Fees are a very important topic, in particular when you deal with public assets, so the pension or endowment pools. But there's also some truth to the saying that you get what you pay for. I believe this whole discussion should not be just about the absolute level of fees, but also about the right alignment of incentives.

I think the fact that the industry has moved towards smaller management fee and at the same time has become more flexible on performance fee is the right way to go. I totally agree that a manager should not get rich just by charging a management fee and collecting assets. It's absolutely the wrong thing. But you have to run your business of course, so there is a need to charge some level of management fee.

We have also talked about transparency. Now, when you offer managed accounts, there's no way you can charge anything through. The investor gets the pure trading strategy, and that's it. However, my view here is that having smart fee arrangements with your clients is absolutely helpful to align the interest. So actually, there are clients that come up with their own fee proposals, and often it's a much more complicated structure compared to just charging pure management and pure performance fee.

We are of course totally open for such arrangements, and they need to be reasonable. Those clients understand that as well, and typically they don't want to turn an investment down just because of such a fee negotiation, if they think it's a valuable component for their portfolio.

The wrong way to look at this is, and that's why we are not really a big fan of all these cheap replicators is to say, okay, we are going to charge 50 basis points and give you like a CTA replicator, because essentially you get something that's highly correlated, but that will never run at the Sharpe, because it's just not possible to do that.

Nils Beitzlich: Maybe just a few more words on the hedge fund replicators. I am not referring to those strategies which implement the most simple factor replication models. I would 100% agree that trying to explain and replicate hedge fund returns with sometimes completely unlinked market factors doesn't work in the long run. But where we see a lot of interest and new products is around mechanical replication strategies. These risk-premia products aim to reproduce some well-known hedge fund trades through a rule-based fully systematic algorithm. In addition to providing investors with relatively uncorrelated returns, these products help to measure how much real alpha a hedge fund manager provides and going forward probably determine how much investors are willing to pay for that.

I agree that if a manager consistently produces real alpha, nobody will ever question the fees. But what we see over the last couple of years is that this holds only true for a few managers. For some others the ratio is rather 70% beta to 30% alpha. Why should an investor pay a 2/20 fee for a manager who is providing him with 70% market, sector or factor exposure?

The renaissance of these risk-premia strategies offers a nice and cost efficient way for our clients to buy into alternative beta. With the shutdown of most proprietary trading desks over the last couple of years, we expect to see much more of this kind of product launches. And these strategies are very interesting, as they provide us with deep insights into the hedge fund business and strategy underlying trades. If used in the right way they can help to identify what exactly single managers are doing and how they position their portfolios. They reveal whether a manager just repackages alternative beta in a hedge fund charging unjustified high fees or whether he produces real alpha. I believe larger institutional clients already started to investigate these opportunities. They are really trying to understand the different risk premiums they are getting out of the hedge fund business, and once that is done, then will decide how much they are willing to pay for it. And that I think is a very fair assessment.

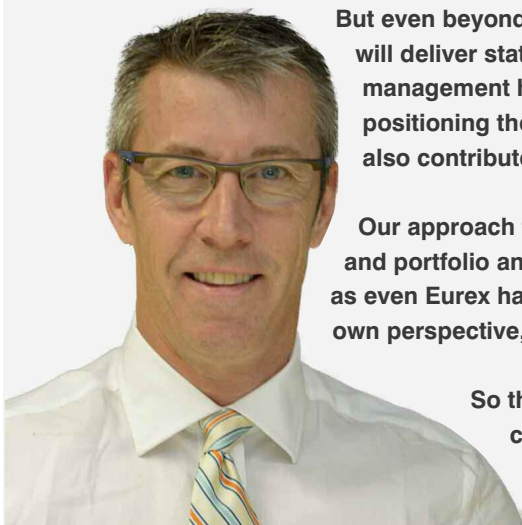
And once they realize that they can buy a smart beta product for 50 bps that provides them with a similar return they receive from one or the other 2/20 products, it won't be very difficult to decide what to do.



Matthias Knab

Who of you wants to talk about a new project, a new idea or a new product you are working on or have launched recently?

Markus Flesch: In terms of vision and new business potentials Eurex has declared the development of Asia as one of our major strategic projects. Having been active in Asia for a while, Eurex had anticipated the growing importance of the Asian Pacific rim. Beside China with over 160 futures companies, Eurex will focusing on the Indian, the Taiwanese and the South Korean markets. Alliances and dedicated product developments like the Eurex/KRX link or the TAIEX link will shape our Asian portfolio.



But even beyond “pure” portfolio expansion, the new Eurex Clearing House in Asia (ECAL) will deliver state-of-the-art risk technology to our Asian clients. The need for effective risk management has never been as important as today. Asian banking institutions are positioning themselves as pan-Asian clearing hubs. Therefore Eurex Clearing intends to also contribute to market safety and integrity as well in this region.

Our approach to expand to Asia serves two objectives: firstly to broaden our client base and portfolio and secondly to reduce our own dependency from over boarding regulation, as even Eurex has been hit by regulation, not just our face-to-face clients, but also from our own perspective, be it on the trading layer or be it on the clearing layer.

So therefore being “hedged” over time zones and jurisdictions we can complement our exchange offering to all of our clients, wherever domiciled.

By expanding into Asia and new markets, we will follow our customers acting globally and over different regulations. One of our aspirations, apart from operating in a less regulated environment, is to deliver Asian products to Asian clients enriched by derivatives benchmark products, be it fixed income blockbuster or European equity benchmarks. Whatever the taste of our clients will be, we are committed to deliver the European flavor and quality into the Asian time zone.

But nevertheless, as I mentioned the other aim in further developing Eurex Asia is to give options to European and U.S. clients who right now are being stretched or hit by substantially increasing administrative burdens. A lot of global players are looking for different options, and therefore Eurex Asia could well develop into this niche.

Our vision might be seen as a kind of regulatory arbitrage, which is by no means the case, but nevertheless an infrastructure provider or exchange is in charge to design and to structure a functional market place wherever the clients are moving. We all have seen it in the past, for example Karsten as a CTA knows the impact of the High Frequency Trading directive imposed by Germany, which was a big burden for some of our clients, and I think that is an example of something which could be even circumvented or where clients appreciate to have different options. Once you have a clearing house established in a different time zone, you will be able deliver other options to the market.

Nils Beitlich: I think what we continue to focus on, and this may be also of interest for you, is education. I know it sounds weird, because we have been educating clients over the last couple of years, but we believe it is the best way to help clients become successful long term investors in alternatives.

Karsten criticized before how investors can be short-memored, and that is very true. Most investors seem to remember a 12 to 24 month period, but after that again tend to allocate into one single strategy or even fund, no matter on how much time you spend on talking about the value of diversification. It is very important for us to avoid concentration risks in our clients' portfolios and the only way to do so is continuously educate them on the optimal way to play alternatives.

That's also what I referred to when I said 2014 was supposed to be the year of equity hedge. After the good performance in 2013 many investors focused on this strategy by over-allocating to it. After 2014 was a less spectacular year for equity hedge those investors are now disappointed.

So, when it comes to education, we try to do it differently this time. We don't think investors in general have a good understanding of the hedge funds' underlying risk factors. That means when they buy a hedge fund, they rely too much on the alpha component but sometimes miss what other risks they are adding to their portfolio.

They don't know whether they buy liquidity risk or volatility risk or whatever risk source the strategy addresses. We really try to explain those dimensions, even after the investment has been done, similar to an after sales care. Karsten also talked about that earlier, how important it is that you have an educated client, so that once something unexpected happens in the strategy, you have a better chance to explain to them why, and they won't necessarily bolt towards the exits.

When something happens that they don't understand, particularly with clients who are not that well-educated, the problem then falls back on the manager or the advisor. That includes complaints like the alleged underperformance of hedge funds versus equity indices like the S&P, which of course is mostly due to hedge fund managers maintaining conservative exposures with equity markets near record highs. So those communicative challenges is something we have a strong focus on.



Another topic we focus on is diversification and liquidity. Many investors tend to follow a buy and hold strategy, but that doesn't make always sense. In order to extract the value of a diversified portfolio, you need to rebalance it from time to time. However, what if some of your portfolio assets do not allow you to rebalance, simply because you can't sell them? As an example, many people believe private equity is a great portfolio diversifier. From a quantitative point of view that is true, however everybody who ever tried to unwind his private equity fund in a crisis environment will know that the NAV of his investment doesn't necessarily match the realizable value.

This is a problem as even investors who try to diversify sometimes have wrong expectations with regard to the diversification potential of their assets. It is important to make them aware which alternative strategies are return enhancers and which are real diversifiers. Those and other questions like, what are the risks in the hedge fund business, what are the advantages in the hedge fund business, and how should I play strategies to really squeeze out some of these advantages will keep us busy.

- Ian Hamilton** For 40 years I have been trying it in the long market, the fixed interest markets and now in the hedge fund market, good luck!
- Nils Beitlich** I know. But at least we are trying.
- Ian Hamilton** Yes, don't stop trying!



Matthias Lindenmayer: At the end of the day our activities are resulting from our clients' need for solutions.

In the single manager space, we see strong demand for U.S. managers. While U.S. managers were a bit in a wait and see position, this trend is about to reverse. Of course, AIFMD is a key catalyst in this development. So, we are very excited to launch two U.S. strategies in 2015.

In the fund of funds space we are working on a new vehicle which is looking at the seeding/emerging managers business from a fresh angle.

Karsten Schroeder: Nils, thank you for doing part of our job then in educating clients, which is very much appreciated. For me it's quite clear and a matter of fact that people try to time strategies, and it never works.

I also fully agree with the fact that clients often don't even understand what the underlying risks are from the strategy theme perspective, not even from an individual manager's perspective.

Then the question I am always asking myself, looking at institutions making a proper investment decision and spending probably a quarter of a million dollars on due diligence cost: how can an ultra high net-worth possibly even get close to that type of decision making? That poses an extremely high challenge to them, because in the end they will never get the transparency and the level of information, because in most cases they simply do not have the resources. Instead, they tend to be backward looking and pay a lot of attention on past track records, and that means they are chasing returns. So by definition, they will make inferior calls.



So here is really where an intermediary can step in and add value, or a very well-managed fund of funds or a really good private banking solution. They should be able to do this job almost at the level how a large pension fund would do it, and then offer a tailor-made solution to clients.

Unfortunately, there are very few that do that successfully. So I really think that here is some real demand coming through, because you cannot just tell your high net-worths or ultra high net-worths, *“this is the list of funds we have on our platform, and that is their performance, what do you want to pick?”* I mean, such a “model” is really off the mark, it's just inconceivable you can successfully invest in that way.

Plus, you won't have the relevant information, because the funds will be extremely hesitant to provide a bank or a platform this level of transparency that a large institutional client gets. Because there you know it's five people who know it, and it's one report. If you give it to somebody else, like to a platform, the information is out. So that is an IP problem. Resources and access to information are the two dimensions that unfortunately create huge challenges for smaller clients to make as an educated investment decision as a large client can do.

Matthias Knab Any wishes regarding 2015?

Karsten Schroeder: Well, I think asset managers in general wish for sensible regulators, although whatever it is, it ends up being a cost position for us. The one thing that I'd say is fantastic for us is that markets have become more natural again. From that side it's very interesting to see the U.S. moving in a totally different direction than Europe. Europe is just like in the process of fighting recession, whereas the U.S. has probably made a significantly more healthy recovery, which creates interesting marketing dynamics between Europe and the U.S.



I hope also that the level of political intervention and central bank intervention will drop in Europe going forward. Although I think there will be the strong need for maybe just that for the next couple of years, because the whole Eurozone is just on the verge of really hitting a severe recession. There are so many problems in the various countries, so active managers will probably have interesting trading opportunities from that perspective. Maybe we even see a fallout of the Euro. That would be a really big event.

Karim Atallah: I also believe that 2015 will be challenging on a variety of fronts. In 2014 I felt there was a bit too much consensus in terms of views on the U.S. dollar, Japanese equities, and on overall macro themes. In a way, everybody sort of closed their eyes and were in the same types of trades.

In contrast to that, 2015 could be the year of the nimble managers who will work their way out of this sort of blurring macro picture and tackle the deflation story in Europe. So there's a lot going into the market like wages in Europe, property prices and so on. So that will be the first challenge.

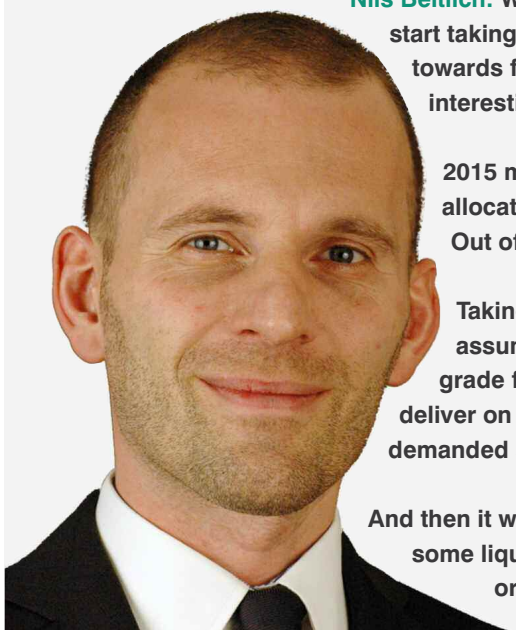
The second challenge which actually nobody is talking about is that we may face a collateral disruption of some sort. We hope not though. The regulatory reform is driving demand for higher quality collateral, we see that happening more and more.



At the same time you have those macro developments where some of the sovereign AAAs, for example, are getting downgraded. This is a risk people want to keep their eyes on.

I already referred to the other challenge related to investment talent. This has almost become a structural impediment in some places. Going forward, it will become an even bigger challenge to find good investment professionals. I was talking to a hedge fund manager recently who was looking to hire people into his firm, and I asked him, “where do you hire from?” His answer was, “when I speak to desk heads within the banks, you find that they have not traded for five years. They might be great people managers, but they haven’t traded for five years and that is not what we are looking for. So when I interview I actually tell them, I want to hire the person who reports to the person who reports to you, because they are the ones managing risk and doing day-to-day trades”.

So it will be interesting how all of the above pans out in a way in 2015.



Nils Beitlich: When we look at the asset allocation process going forward, what people may start taking more into account is the relative performance of the hedge fund world towards fixed income. And I think from that end things are getting more and more interesting.

2015 might be an inflection point. We already recommend our clients a 14%-18% allocation into hedge funds and this number not even accounts for private markets. Out of my view this is quite a number and hopefully sends the right message.

Taking into account that our asset allocation is based on forward-looking assumptions, we already consider high grade and to some extent investment grade fixed income investments as less attractive than hedge funds. If hedge funds deliver on our expectations in 2015 they will probably become one of the most demanded asset classes.

And then it will also help that we have some UCITS funds, because many allocators have some liquidity constraints and they will need to invest through these structures in order to get access to that promising investment class.

Patrick Burger: For 2015 we continue the build-out of our House of Funds where we will also offer our regulated platform to other managers. I think this will become a trend for not only next year but for many years to come. This consolidation process will go on and probably intensify. The independent asset managers need to search for solutions that cover the operational, legal and regulatory base of their operation, so that they can focus and proceed with their core business.

From an outlook point of view, we also believe that the European recovery is frustratingly slow going forward, and we are closer to deflation than inflation which the officials tried to induce over the last two years. I think we will see some shocks again in 2015 which will lead to a spike in volatility and to some great trading opportunities. I think we will have a good environment for traders.





Ian Hamilton: For 2015, Scotstone will be out building solutions to the smaller hedge fund managers and provide opportunities for them to be able to get up the ladder. That has become more and more difficult for new managers with all the regulations. In particular, I also hope to launch soon an umbrella structure through Malta for the smaller Swiss fund managers.

Looking at the risks, I agree, I would like to see the Euro as a currency coming apart this coming year. I think it's on the wish list of a lot of people for some time in the near future.

What's also on my wish list is that I hope 2015 we are not going to read any more articles about dishonesty amongst the banking community, because that gives all in the financial community a bad name.

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