



# Opalesque Roundtable Series '15

# MIAMI

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# Editor's Note

Knight Frank lists Miami as one of the top ten global cities where the wealthiest 0.1% of the world live or want to live. In 2014, resale prices for downtown condos have increased by 20% and rents are up 10%. Art Basel, one of the biggest art exhibits in the world, didn't choose New York or L.A. They chose Miami. Dubbed the "spring break for the rich", more private airplanes are in Miami than anywhere else during that time.

But, maybe even more important, Miami is also listed as one of the top-15 cities in the world where young people want to live and work. That has the power to be a game-changer over the long-term. Already now, employers rave about the diversity of talent by way of background available in the city. The University of Miami has 6,000 computer science students and is constantly in the top-50 rankings, while 55,000 students attend the Florida International University, which also offers a Masters in Finance Program.

Miami was always a banking center. Starting out as a regional banking center, Miami grew over time to being the capital of the Caribbean, if not Latin America, and certainly, the preeminent financial center for deposit collection. Along with that, the private banking community also grew immensely and created a tremendous amount of wealth. There are still huge amounts of capital migrating to Miami. Investors are forming single and multi family offices, and a number of large hedge funds have recently migrated to Florida.

Miami is also a major legal center for Latin America, and healthcare is another very important aspect of the local economy. Of course, there is the weather and the out door lifestyle, that allows you to be outside throughout most parts of the year. **And then there is Miami real estate.** *"When you want to know what's going on in the world, you don't need to watch CNN. You can just look at the Miami real estate market where you can watch live what happens in a lot of foreign countries",* says Nitin Motwani. Until recently, the Russians were buying very aggressively and actively for a long period of time; that stopped when the U.S. placed them in the penalty box. Then, the New Yorkers came in because hedge funds did well for a couple of years. The highest price was \$6,000 a square foot for one of the penthouses. The beat is on in Miami!

The following experts participated at the Opalesque 2015 Miami Roundtable:

1. Julie Neitzel, [Partner, WE Family Offices](#)
2. Andrew H. Jacobus, [President and CEO, FINSER Asset Management](#)
3. Nitin Motwani, [Managing Principal, Miami World Center and Managing Director, Encore Housing Opportunity Fund](#)
4. Tom Krasner, [Principal and Co-Founder, Concise Capital](#)
5. Greg de Spoelberch, [Opalesque \(Moderator\)](#)

The group also discussed:

- Why more and more (also overseas) firms opt to set up a full blown operational unit in Miami rather than a small satellite office
- Others come because they see Miami as a great place to raise a family
- Which are the top countries feeding people, talent and money into Miami?
- Investment opportunities: Short maturity high-yield debt, U.S. equities, REITS, emerging markets
- How local hedge funds grow by marketing to the investor base and family offices
- More about Miami's tech and venture capital initiatives

Enjoy!

Matthias Knab  
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# Participant Profiles



(LEFT TO RIGHT)

Nitin Motwani, Julie Neitzel, Tom Krasner, Andrew Jacobus, Greg de Spoelberch.



# Introduction

**Julie Neitzel**  
WE Family Offices

I'm a partner with WE Family Offices, a family office firm that works with multiple families. Right now we work with 65 families advising on approximately \$3.5 billion of family wealth. We have 46 professionals in offices in New York and Miami, which is our main office. The firm has been around since 2000 but it has gone through a couple of ownership iterations, with the most recent one in January 2013.

**Tom Krasner**  
Concise Capital

I'm the principal and co-founder of Concise Capital. We run a niche strategy in the corporate high-yield market. We focus on short maturity underfollowed high-yield bonds. As we have a two-year duration, the strategy, in a nutshell, has some obvious interest rate and inflation resistance benefits. We also focus on smaller issues where we are trying to capture the liquidity premium available in the high-yield market. We feel it's a strategy that no one else is focused on.

On the short side of our strategy, we try to mitigate volatility by hedging the IWM, the ETF of the Russell 2000. We right now have \$90 million under management, and we expect to receive a large allocation in early 2015 that should put us close to \$200 million.

**Andrew Jacobus**  
FINSER Asset Management

I'm the president and CEO of FINSER Asset Management. Our firm is divided into three separate areas. First is a pure asset management where we run individual managed accounts for medium high and ultra-high net worth individuals. The second division is a hedge fund unit, where we have two funds; a fixed income fund that focuses on under-watched corporate bonds that will yield 5% or more. The second fund is an equity fund that participates on all the syndicate IPO secondary and strategic allocation of equity.

The third division, which we started in 2013, is called the Venture Advisory Group. Basically, we work with startup companies that are already generating some kind of cash flow and are looking to either grow or expand their business. We take a look at them and try to fund them, usually with a minimum of \$500,000 up to \$5,000,000. Last month, we funded a coffee company that operates out of Woodlands in California, helping them grow their business.

**Nitin Motwani**  
Encore Housing Opportunity Fund

I am managing director of Encore Housing Opportunity Fund. We have approximately \$1 billion in assets under management, with offices in South Florida, San Francisco and Los Angeles. We are a vertically integrated private equity fund that focuses on real estate. We started in 2009 with our first fund which is more on the distressed side. Our second fund is more opportunistic, and our third vehicle, which is called Rescore, is a private REIT doing apartments.

We are geographically doing deals in California, Texas, Arizona, and Florida, and we do all things residential. Rescore focuses on owning buildings, developing and owning apartments long-term while Encore is more focused on the sales side.



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**Nitin Motwani:** Universa Investments LP is a hedge fund that started off in New York and ended up in Los Angeles. The owners are good friends of mine and I tried to get them to move to Miami back in 2009, which was a year after they made a lot of money because they manage tail risk and therefore did quite well in 2008. At the time, truthfully, Miami wasn't enough for them. What I mean by that is we didn't have the arts, the culture, the entertainment, the urban feel that we do today. Since then I think we matured a lot; a lot of the press about Miami was very negative during the recession, and certainly, it was painful for those of us in the real estate industry here for a period of time. But what has come out of it is a real city: Knight Frank lists us as a top 10 global city to the wealthiest 0.1% of the world.

When I revisited Universa through the DDA, the Downtown Development Authority's efforts for recruiting hedge funds, it was a different story. They came here and they saw what was going on, they got very comfortable very quickly and found this is a place where they, as principals, would like to live with their wives and kids and also, where they can attract and retain talent. In addition they could get their investors to come and see them here. That was one of the other concerns; when there is not a critical mass, can you get investors here between the conferences that occur in Miami between October and May, as well as all of the variety of different investment advisors, hedge funds, private equity, etc.? However now, we no longer have any challenge in getting people to come to Miami, especially in the winter months.

Universa Investments really was the start of what's been a great process. We relocated more than ten companies to Miami. XP Securities is another big one, a Brazilian-based group that we expected would bring a handful of people but then ended up moving to a very significant office here. They also have been kind enough to host us down in Brazil and introduce us to more people.

The lifestyle has certainly caught up with other world-class cities, and the weather doesn't hurt. We're in a very unique situation right now in Miami, where I think it's just the beginning.



**Tom Krasner:** I can remember a time when there were actually single-family houses on Brickell Avenue, instead of 50-storey buildings. Miami was always a banking center, but it started out as a regional banking center. And it grew to being the capital of the Caribbean, if not Latin America, and certainly, the preeminent financial center for deposit collection.



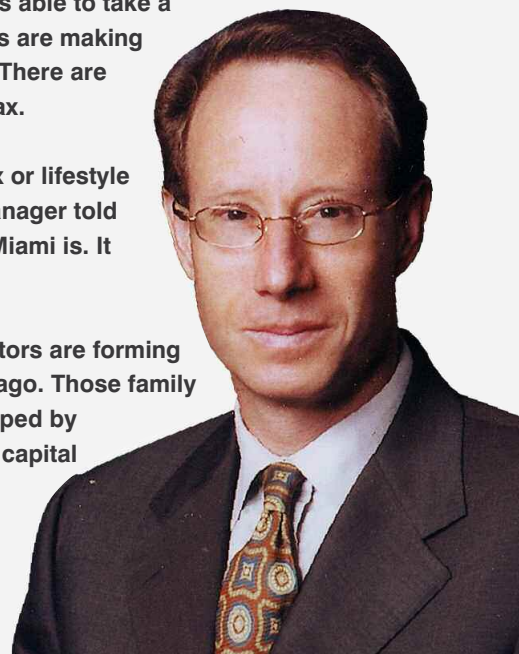
What changed here is the private banking community, which grew immensely and created a tremendous amount of wealth. That wealth has led to the blossoming of the city on several fronts.

I was on the board of directors of a company in Russia a while ago, and I was able to take a direct flight from Miami to Moscow, which had just started. All of those things are making Miami a financial, travel, and international hub, and a truly international city. There are other things, such as Florida's tax benefits, where there is no state income tax.

Palm Beach, as well as Miami, is actively trying to recruit hedge funds for tax or lifestyle reasons. But when I was up in Palm Beach at a conference, a hedge fund manager told me that Palm Beach couldn't compete because it is not the vibrant city that Miami is. It doesn't offer the same lifestyle.

We are also seeing a tremendous amount of capital migrating up here. Investors are forming family offices, such as Julie's business, which Santiago started many years ago. Those family offices lead to a proliferation of financial talent, of hedge funds being developed by people who are moving here, initially for jobs, and who are then also finding capital sources to fund them.

So we are seeing growth on several levels - not only from new investments coming in as the likes of Universa, but also from homegrown talent.



**Julie Neitzel:** Miami is becoming a global epicenter in the areas that Nitin and Tom just talked about, but also, it is now the major legal center for Latin America. Many major law firms that are based here also have offices in Latin America with many legal interactions between Miami and Latin America, as well as the rest of the world.

Healthcare is another very important aspect of this local economy, not only for those of us who live here, but for all the global travelers visiting Miami specifically for medical needs.

Nitin discussed Miami being among the top-10 destination for ultra high net worth individuals. When you look at the list, where do they want to own personal real estate or investment real estate? New York, Hong Kong, London – and now we have Miami included in that globally prominent top-10 list. That's a big economic impetus for some of the other periphery industries that exist here, as well as the service providers that support the global owners of local real estate.

Many newly constructed condos went dark and were not sold during the global financial crisis. Today, all those buildings are fully occupied, and new condominium products are being delivered into the local market. So robust real estate demand in Miami continues.



**Andrew Jacobus:** Art Basel, one of the biggest art exhibits in the world, didn't choose New York or L.A. They chose Miami. So the only venue outside of Switzerland for Art Basel is Miami. Why? Because a lot of people here want that.

You were talking about the local talent through our Venture Advisory Group. We usually will tell people in Silicon Valley, "You're spending a fortune to be in Silicon Valley, when you can live for a fraction of that in a very nice climate, very nice place and you have 6,000 computer science students at the University of Miami at your disposal."

We have just funded a coffee company, and one of the things we told them is, “Why are you bringing in coffee from Brazil into a port in Miami, then trucking it over to Woodland, California when you have your center right here?” These type of things are happening...

And a lot of people are beginning to realize that Miami is no longer a dormant city. Proof of that is that wherever you go, and they ask you, “Where are you from?” and you say, “Miami,” they reply, “What are you doing here?” I was in Florence, Italy, visiting a museum and a lady said, “Where are you from?” I said, “Miami.” “Why did you come to Florence?” I said, “Well, there’s a lot of art here in Florence.”



### Gregory de Spoelberch

A trader who moved to Miami ten years ago told that when he moved back then, the perception was, “What are you doing in Miami? Why are you managing money in Miami? Why am I going to invest in you, when I can invest in somebody in New York or somebody in London?” Culturally, at that time people wanted to be in Miami because they liked partying on South Beach. That has definitely changed.

A lot has to do with technology as well as people realize they can operate their business from anywhere. But more so, with the emergence of more firms, more funds, more assets being down here, Miami is being taken seriously. That has definitely helped the perception and willingness to invest in South Florida firms.

**Nitin Motwani:** To add to Julie’s point about condos, last time, there were 70,000 units planned in downtown alone, but only 23,000 of them got built. Those are 99% occupied today. Prices have increased in downtown condos by 20% in the resales in 2014 alone. Rents are up 10%. It means there is demand for downtown. We always knew that downtown, or Miami in general, has been a playground for the ultra wealthy. Art Basel was coined in the Wall Street Journal as the spring break for the rich, and you find here more private airplanes than anywhere else during that time.



A recently published article says that Miami is listed as one of the top-15 cities in the world where young people want to live in and work in. That’s going to be the game-changer, because wealthy people can live anywhere, with planes, technology and wealth and they don’t really need to work everyday. But the young professional wanting to come here will have a great impact long term.

10 years ago, when I moved back here from New York, I was trying to convince my wife to move here and she eventually moved after finishing business school. She was one of a handful of people who chose to come to Miami after graduation. That has changed. The top students at universities, business schools, and law schools are now finding great opportunities in Miami.

### Andrew Jacobus

On the construction side, many of the well-renowned international architects are coming to build here. It’s not your single home or your multi-story cookie-cutter building, it’s cutting-edge design that is coming to the Miami skyline.



# 70

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**Julie Neitzel:** I have been living and working in this market for over 30 years and have experienced much of the local transformation. Additionally, I have been hiring talent over this period and am pleased with the expansion of talent in Miami. For example 10 years ago, there was a very small talent pool of investment professionals and it was a challenge to relocate candidates to Miami. Today, there are many talented individuals from recent graduates to highly experienced veterans and relocating talent is possible. The proliferation of investment talent is wonderful to see and really encouraging, particularly when you're working in a firm that needs highly capable financial and investment professionals.



**Tom Krasner:** One big thing about lifestyle here is being able to be outside a huge part of the year because of the climate. You have a wet season, you have a dry season, but you can be outside almost any time. This is important to me, as I'm an open water swimmer. I could have gone up to New York, but I decided to stay down here throughout my career. I may have given up a little bit career-wise, but I gained a tremendous amount in lifestyle.

What's also remarkable is the proliferation or development of the universities. I'm a mentor at the University of Miami. When I came down here, it used to be known as "Sunshine U". I don't think anyone now would consider it an easy school. It is a very impressive school. It's in top-50 rankings consistently, and our firm regularly hires interns from it. Florida International University has a Masters in Finance Program, which they developed in the last few years. There are 55,000 students at FIU, so it's a huge pool.

An additional benefit you have in Miami is the diversity of talent by way of background. My partner, who is in Southern California, likes to joke with me that there are about ten people in our office, and I'm the only one who is not from somewhere else. If you went to Pittsburgh or in Middle America, you'd have a much less diverse group of people, and that makes a huge difference in perspective.

One of my analysts is from Bulgaria. We talk about Russian credits, not that we buy them, but he always has an interesting perspective. I have another analyst who is from Venezuela. She understands what's going down in Latin America. These are things you can't get as easily in most other financial centers.



**Andrew Jacobus**

Ten years ago, you would not have had a major financial event take place in Miami. But we recently had the America's Family Office Forum. Morgan Stanley, every January, has a big Latin American symposium here. And that's only mentioning two of what goes on.

**Julie Neitzel**

And J.P. Morgan.

**Andrew Jacobus**

J.P. Morgan, correct, they are all getting their financial events now done here in Miami, it is interesting.

**Greg de Spoelberch**

Especially in the winter months. What are the trends as far as the investment flows are concerned?

**Nitin Motwani:** When we did our first fund, we had one investor from South Florida and by our second and now third fund, that number increased significantly, and most of them are family offices. But institutions are also looking more at funds that are based out of South Florida or California than they were 10 years ago.

In some countries, people still tend to like hard assets and owning direct, and a lot of that has to do with bad experience, some of it with larger institutions and some in general, and that plays a big part of Miami real estate. There is a very large Chinese group looking around Miami for the first time, looking at direct investments into certain deals. A 1.25-acre site across the corner was acquired by an Argentinean gentleman for \$125 million. There is more accessibility in terms of flights, Qatar Airways for example have started direct flights in 2014. Coincidentally, the St. Regis Bal Harbour trades to a Qatari group for \$1.2 million a key.

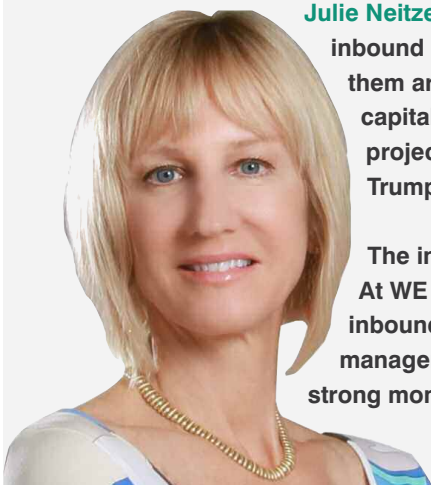
All this matters; whether it's direct flights to Russia, direct flights to Qatar, and direct flights to Dubai, which will start soon (we're waiting for direct flights into China). All of these countries are looking at Miami; some of them prefer to buy condos, some prefer hotels, some prefer offices, some prefer to invest into funds. We're certainly meeting with a lot of them. As Andrew said earlier, wherever you are in the world, if you mention Miami, people are interested to come visit and see what's going on.

Miami is a very exciting place. It's like a version of Dubai happening in the U.S., with U.S. laws and safety. So the international community is looking at Miami for a variety of reasons, whether to live, to work, to play, to invest, to commingle funds, to direct invest.



**Julie Neitzel:** With regards to investment flows specific to real estate, there is considerable inbound capital flow. All you have to do is look at all the cranes around the city as many of them are due to Latin American developers building projects with local country investor capital. Also interestingly, there are meaningful capital outflows into Latin America for projects. For example, I understand that the Related Group has projects in Brazil while the Trump Group has a project in Uruguay.

The inbound and outbound capital flows make for an interesting investment environment. At WE Family Offices, 60% of our families are global and not U.S.-based families. The inbound traffic of global families, whether it's for real estate investing purposes, for wealth management and advice-based purposes, or for working with a firm like ours, shows a strong momentum that continues to accelerate within wealth advisory.



**Nitin Motwani:** The interesting thing is, when you want to know what's going on in the world, you don't need to watch CNN. You can just look at the Miami real estate market. It's a really fascinating place to be because we can watch live what happens in a lot of foreign countries.

Russians were buying very aggressively and actively for a long period of time; then all of these challenges between the U.S. and Russia started because we placed them in the penalty box. Suddenly capital is harder to get in, so Russia stopped. Then, the New Yorkers came in because hedge funds did well for a couple of years.



Now we have Lloyd Blankfein from Goldman Sachs, Leon Black from Apollo, all these people happily paying \$3,000 a square foot, breaking all new records. I think the highest price was \$6,000 a foot for one of the penthouses. We had an election in Brazil and the president stayed in power - great! Every Brazilian is coming to Miami to spend money. When people started to say China was slowing down, we saw that in Miami because a lot of Chinese companies were here - and these are state-owned or related companies - and were saying, "we want to make a big bet on your market because the things are changing back home and Miami is the future."

Like Tom, I mentor at the University of Miami, and I am also on the Board of the School of Real Estate there, and we're seeing a number of students from new places. We always had a lot of Latin American students there, but now quite a few Chinese students that are coming are saying, "people are talking about Miami, we want to be ahead of the curve."

So there's all these interesting international dynamics that you see play out in Miami. The good news is, whether things are good or bad, people tend to love Miami.



**Greg de Spoelberch**

July, can you give us a breakdown about the variety of countries where your overseas family office clients are from?



**Julie Neitzel:** In the WE client-family base, the non-U.S. families are mostly from Latin America and Europe.

With regard to the prior comment regarding Russian investors and their challenges with regard to bringing in capital, that's actually another trend happening. As the global financial governments push for greater global transparency, it becomes more and more challenging for investors who are trying to open accounts and move funds from their home country to other jurisdictions, particularly if they are not doing it in a compliant fashion and even if they are fully compliant.

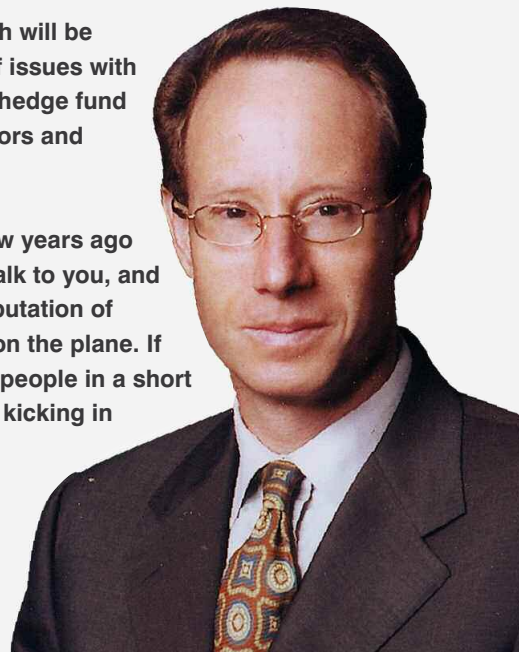
**Greg de Spoelberch**

Can the fund managers here give a quick overview of the investor base and any other trends?

**Tom Krasner:** Our investor base has historically been wealthy individuals and family offices. A Brazilian family office funded us initially, and our current strategic partner is a very large investment platform backed by several wealthy Latin American families. We have branched out into a variety of structures and different asset bases. We act as sub-advisor to a 1940 Act Fund.

We also will be rolling out, with our strategic partner, a UCITS platform, which will be marketed to the European and the Latin American markets. There are a lot of issues with creating the right vehicle and having the right distribution. For example, our hedge fund is a Cayman Islands master feeder structure; that's attractive to some investors and less attractive to others.

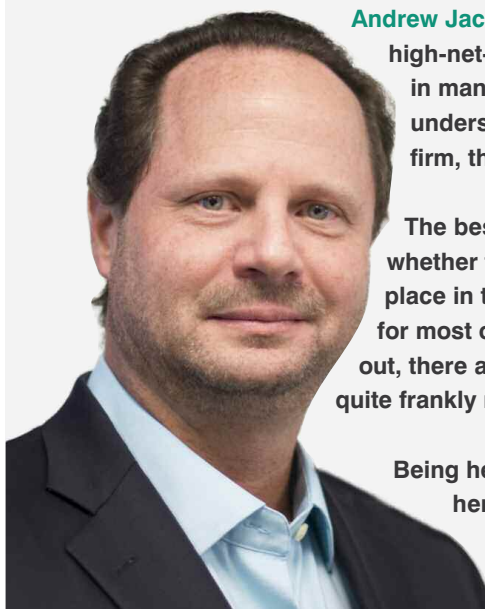
It is progressively becoming easier to attract capital here. As Greg said, a few years ago it was a disadvantage to be in Miami. In New York, people wouldn't want to talk to you, and they felt, why bother with anybody in Florida, and people in Florida had a reputation of being shady. There also was a question if it was worth the bother of getting on the plane. If you're located in Paris or London, you can go to New York and visit 20 or 30 people in a short time, but in Miami you can't do that. However, with the financial conferences kicking in now, and with the region starting to reach a critical mass of a variety of investment managers, people can get off the plane and visit a lot of different strategies. That makes a huge difference in the number of visits, the viability of your business, and just being able to market yourself and being taken seriously.



**Andrew Jacobus:** Our client base is purely Latin American and individuals, actually all ultra-high-net-worth individuals. It's a lot of work because there's a lot of back office involved in managing individual accounts. But it's very rewarding because the clients understand that rather than having to deal with a very large broker dealer or advisory firm, they get the personalized attention that they are looking for.

The best advantage that we have is that wherever any of these people travel to, whether they are going to Europe or Orlando to take their kids to Disney or any other place in the United States, they always like to make a stop in Miami. So it's very centric for most of our Latin American clients to come, and as most of you have already pointed out, there are direct flights from almost anywhere into Miami now. The Miami Airport is quite frankly much more pleasant than New York's.

Being here is also good when you run a master-feeder fund, as the islands are right here. You can hop on a plane and you're in the Bahamas, in Cayman Islands, in Nevis, in Curacao or Barbados in less than two hours. That is very convenient.



**Greg de Spoelberch**

Another reason why Miami has benefited so greatly over the past ten years is the U.S. dollar. While the dollar has been strengthening only recently, we have to keep in mind that it was relatively weak over say the past 15 years, especially versus South American currencies, and then more recently the Russian currency. Particularly Brazil has had a very strong currency over the past 10 years, and so it's on top of having benefitted from attractive pricing in Miami. That made things even more attractive for foreigners.

**Nitin Motwani:** With regards to fundraising, in our first fund we had a lot of European investors, maybe due to the timing, as Europe hadn't been hit fully by the crisis then. We still have many of the same investors from Europe, but as a percentage of our funds, it's less. This is because what happened in the U.S.; a lot of the domestic allocators maybe got burned by some of the larger managers. So they wanted to have more direct investors like ourselves, who are a unique mix of private equity and developers, which means there's no slippage in fees and promoting.

Some of the larger international investors, because they write such big checks and because they are few, tend to go with some of the bigger funds. They are starting to see their returns now and they realize that they aren't getting what they thought they would be getting. So, we are having a lot of interesting conversations with them, now that we have a track record and are bigger in size. In our last two funds, we are seeing a lot more of the U.S. large institutional investors are focusing on managers like ourselves that are middle market and vertically integrated.



**Greg de Spoelberch**

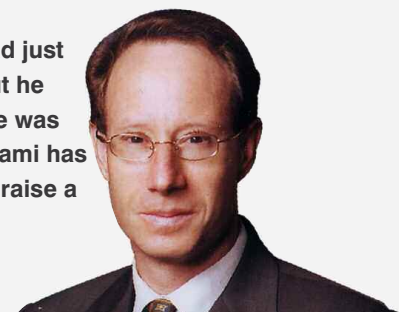
All of you discussed access to Latin American capital, the back and forth between the two markets. Do you have insight on the migration by XP Securities to Miami, for example? Are they trying to capitalize on the obvious Brazilian interest in the market?

**Nitin Motwani:** I chair Economic Development and Marketing for the Downtown Development Authority (DDA); that's part of our hedge fund initiative. And when we met with XP, it was, "why don't you just open a satellite office? It doesn't make any sense to not have one when everyone has one in Miami." I think as they saw the pool of talent, as they saw their investors and various colleagues getting enthusiastic about Miami, their size grew dramatically. Not only did XP decide to move here, but they have opened a lot of doors for us saying, "you need to get down to Brazil, you need to tell the story." They provide a lot of credibility to Miami by the fact that they went through the diligence and chose to move here. That's the snowball effect. With Universa, it took five years before they moved here, but they're here.

We don't have a big budget or incentives and we are competing against States like Texas that are offering a lot of money. We just are trying to educate people that it's a different Miami, and we've got a great story to tell, and when people are willing to listen, XP is a great example. And the good news is, now they're telling the story with us.



**Tom Krasner:** I just want to add an anecdote. We recently interviewed a person who had just moved from Brazil. He's very senior, a country director for a large investment bank. But he talked about his reasons for moving here; it came down to lifestyle and opportunity. He was less optimistic about Brazil, and he said he was really moving here for his children. Miami has not only become a great place to live and to move for lifestyle, but it's a great place to raise a family and to give opportunities to build a family.







**Julie Neitzel:** The Brazilian influence in Miami continues to grow. In the last months, I've met with two different firms whose sole focus is on supporting Brazilian investors with their U.S. activities. Their primary interest is to find projects and opportunities to invest in U.S. real estate. That's another Miami movement with advisory or alternative investment firms; businesses are setting up offices in Miami specifically to provide services for their offshore investors.

**Nitin Motwani:** My son is turning three this year, so I'm going through the schooling process. The schools in Miami are just amazing. I mean, the public schools are great; Superintendent Carvalho is getting all these world-class awards, and he's making huge changes on the public school side. On the private school side, which a lot of people coming from New York or L.A. or Chicago are used to doing anyway, the schools are phenomenal.

And about Julie's point, I think that we often talk about the Brazilians, the Argentines, the Venezuelans, which are the big feeder-markets, but people are also coming from places like Chile or Peru setting up companies, buying real estate, enjoying Miami. A tremendous number of countries are feeding into Miami. They get outweighed by these huge other markets that have been coming for longer in bigger quantity. But we just take it for granted in Miami. In a lot of other cities, these would be the largest international contributors to their economies if that was measured that way.



**Greg de Spoelberch**

Turning to investments for a moment, what do you think are the best opportunity sets for investment strategies?

**Andrew Jacobus:** I'll build on that idea, on a macro level. If you take what the U.S. did to solve the problems of the financial crisis, versus what the rest of the world did, we're probably five to ten years ahead of what the rest of the world is now doing.



At one point in time, we thought that perhaps Europe would get out of its mess and we only discovered a couple of quarters later that they're still in it and it's not going to be an easy thing to get out of it, but then that is very typical and characteristic of Europe. Europe is the old continent. It means that they take things on a much slower pace than what we are used to in the U.S.

Japan has still its challenges, and China is a different case, a country with an apparent open economy but a central Communist government. So overall, if there were a place where you would want to be invested, it would be in the U.S. market.

One proof of that is Alibaba chose to do their IPO in the U.S. rather than in China or in Hong Kong. Why is that? Well, first of all, access to capital was much easier and better than what they could do in some of the Asian countries, and that sure would give them enough strength today to come up with probably an ADR program over in Asia for that.

Interest rates will probably go up next year, but they won't go up that much, because it's just like when you are sick and you have been taking medicine, you are not going to cut yourself off the medicine before you know you are completely well, because you don't want to fall back into your sick state. So I think that interest rates will only go up slightly. That's going to help the housing market, because mortgage rates will stay low. Add to that the falling prices of oil, which should benefit the transport sectors. And the Ebola crisis is going to help the biotech. So transportation, biotech, and housing are probably going to be up on the top of the list.

**Tom Krasner:** Our fund specializes in short maturity, under-followed high-yield debt and so we are really much more focused on the fixed income and the high-yield markets than we are on equities.

We see very little value in Europe. Right now the Ten-year in the U.S. is about 1.8%. Everyone tells you that it pays nothing, but it's a huge payment relative to what you get on the German bonds or any bond in Europe. There's almost no value in the European high yield market; we have just gone through a large correction, and this is probably the beginning of a bunch of corrections we will have in the later stages of the credit cycle.

In October 2014, the market was down over a percent, mid-month, and it came back and finished up 1%. But that recovery was very unbalanced. It was almost exclusively high quality, which was up over 2%; in long duration bonds, that was up almost 3%, and in large, on-the-run issues. Since then, you've had a real panic in high yield, led by a jettisoning of oil credits. Credit spreads have widened by about 150 basis points since June 2014. Risk is now out of favor. Investor surveys show that investors continue to prefer large, liquid, high quality issues.

You can think of the credit markets as being a waterfall; that money, when it comes back, tends to fall first into the large on-the-run issues and then over time it drips into the under-followed issues. So we are seeing value in our markets, which are in under-followed issues, which are neglected, mispriced, sold off, and haven't recovered yet.

I also think there's a lot of potential value in the oil sector. We are seeing oil prices have dropped from \$90 to \$50 (and below) a barrel. A lot of companies won't survive.

But when you were buying a bond at 105, now you are looking at that same bond at 75. The question is whether it's worth 75, given this long-term drop in oil prices, whether a company is going to be able to gradually react and adapt its business plan.

Overall, we are in a low default environment, a period of rapid growth. The U.S. economy is on track to grow between 2.5% and 2.8% in 2014. In 2015 it will probably be a slower growth environment, but low growth and low inflation are benign and supportive of fixed income markets and high yield.

A default cycle will likely kick in, but not until 2016 or 2017. The forecasts are for default rates to stay low at around 2.5%. That means there are opportunities for the leveraged interest carry trade, for clipping coupons, and for earning interest income, but you will have to be careful because you will have corrections. Everyone will run for the hills, and there will be a flight to quality, back to treasuries, and you will have to be nimble and adapt in moving in and out of credits.

Fortunately, our strategy, because it's short-term, offers natural liquidity in about 75% of the portfolio turning into cash every year, and so that offsets being in a smaller issue bond, but there's tremendous value in the sector. The short duration also protects investors against the spectre of rising interest rates.



**Julie Neitzel:** This is our view on the macro level, and how it translates to investment recommendations.

Let me start by reflecting what are some of the things that would be on our watch list in terms of what's happening in this country as well as around the world. First of all, the geopolitical environment influences the global investment markets. For example the Russia-Ukraine situation, which has still not been resolved yet, clearly had a major impact on the global financial markets.

What will the U.S. do with Syria and Iraq? Will they continue with a military-led air strike mission? The continued unrest in the Middle East brings further volatility to the global markets.

The timing of when the Fed will increase interest rates continues to impact fixed income markets with many portfolio managers incorporating shorter duration into their strategies. Many views anticipate a rate increase in June 2015. Will the U.S GDP maintain a 3.0 to 3.5% run rate? Even with an increase we remain in a low interest rate environment.

U.S. unemployment is reducing and job growth has been relatively steady. The Fed will want to avoid entering into an overheated economic environment, but clearly we are not there. We are seeing promising U.S. economic data releases such as business investment not necessarily robust but improving. With the reduction in oil prices, the hope is that the consumer will have more discretionary income to spend. So while there may be some challenges on one side, there may be opportunities on the other. Increased consumer spending in the U.S. is a very important factor, because two-thirds of the GDP in the U.S. is based on consumer spending.

Then looking at Europe, the ECB has a tough road ahead. Earlier in 2014 it was thought that this region would be further along in terms of enacting economic stimulus measures. The initial stimulus was announced in late January 2015 and we will see how successful the European QE program impacts those regional economies.

China's economy has been slowing down. If you all recall, three years ago it was growing at a rate of about 11%. It's now down somewhere between 6.8-7%, based on what they tell us. In the Chinese economy, 25% of the GDP is based on real estate and that sector is suffering quite a bit (in the U.S., 5% of our GDP is based on real estate). So the real estate momentum in China is having a big impact.

How does this macro view translate in terms of the investment recommendations?

Well, as they say, "cash is king." It's always great to hold higher levels of cash because there may be opportunities, whether it's market volatility in the financial markets, or in Nitin's words, real estate opportunity to deploy capital.

Several of you have commented about the fixed income market and the impact it could have in terms of that market, should there be an increase in interest rates. Allocations to portfolio managers that are unconstrained and very nimble on the type of fixed income securities that they will invest in makes a lot of sense for the defensive portion of a portfolio.

With regard to equity investments, continuing with higher weightings towards the U.S. equity market still makes sense given the ongoing volatility in the non-U.S equity markets. Considering active management for the global equity allocations makes sense in this market environment.

The emerging economies, when you look at economic growth around the world, are growing at twice the rate of the developed economies, so currently at a rate of about 5%. So there are interesting opportunities to invest in emerging markets, equities and debt, selectively; that is, by picking countries that have lower deficits, lower inflation and better financial and economic management.





Real assets generally performed well during 2014 and continue to be productive investment allocations. Other areas given their income-producing nature, such as REITs, should also continue to do well in the low interest rate environment. They are interest rate-sensitive, but putting that aside, we still believe that in the REITs sector there will be continued growth and opportunity.

One thing we haven't really touched on is the U.S. energy revolution. That's a really exciting sector of our economy despite the massive drop in the price of oil. MLPs have done relatively well. It's our belief that this particular strategy will continue to do well, given the continued momentum in growth in the U.S. energy sector, although the current low price will affect many companies involved in that area.

Currencies are a very difficult strategy sector because of all the artificial stimulation that can happen, whether it's the Bank of Japan or the ECB. Look at recent cataclysmic results to those strategies pegged to the Swiss franc once the exchange rate cap was removed. These events are difficult to predict.

**Greg de Spoelberch** Or an invasion of Ukraine.

**Julie Neitzel** Or an invasion of Ukraine; and therefore currencies are a very challenging sector.

Some time ago we recommended an exit from managed future strategies. Many of these managers have really suffered in terms of generating positive returns given the challenges of the market in this investing environment.

**Greg de Spoelberch** Julie, you have just mentioned some of the macro trends and some of the managers that you might be looking to allocate to. Would you be more prone to invest in a manager who is located in Florida or in Miami simply because you have access to them, or would that be a non-issue?

**Julie Neitzel:** The advantage of Florida managers is that we have the access to them, their resources, their processes, and can therefore more directly assess how well they are running their business operation. This enables a more comprehensive due diligence. Generally we rely on an external firm that helps us with investment research and due diligence because it's simply impossible to have the resources to review the many investment manager options that exist globally.



**Nitin Motwani:** Something has become interesting when you look at fixed income offering very low yields and equities offering very high volatility, and then when you take a look at what's happening in the country in general, let alone the world.

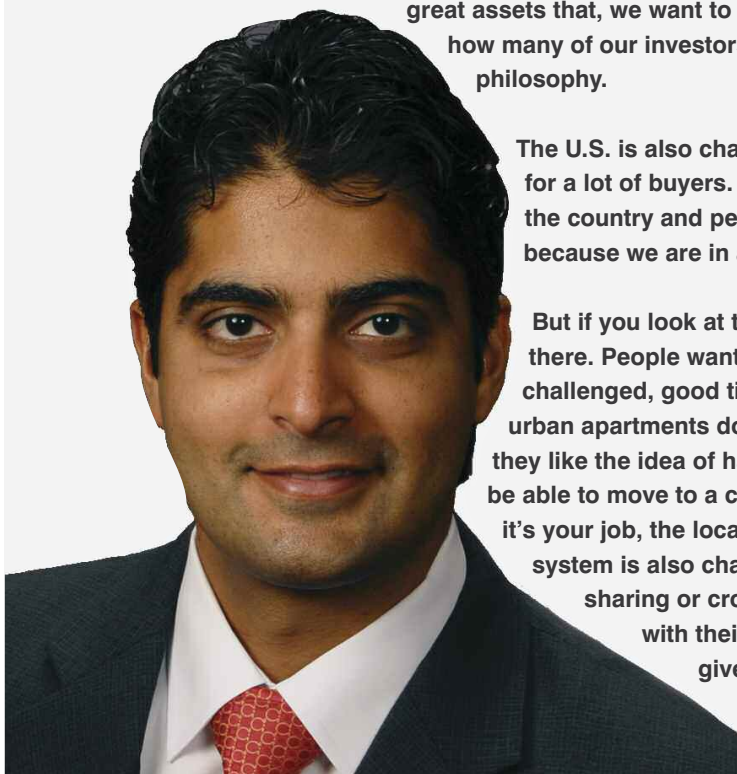
The U.S. has once again solidified itself as the safest place to invest from a legal, financial, geopolitical standpoint.

So compared to the global events, what's happening in the U.S. is very different. We talked about Miami earlier; the reasons for all the condo development and the record-breaking real estate sales are people who have cash who are coming here because they aren't as used to leverage as traditional U.S. buyers are. You're seeing the same thing in New York. We also do business in San Francisco and with the tech boom going on there, no issues whatsoever. Everybody is making money either in cash or options. Los Angeles, a very diversified economy, is heavily influenced by international folks as well. And we do a lot in Texas. We have shied away from Houston because it's very focused on the energy space. So when gas or oil prices drop \$20 or more, and there are 10,000 apartments in construction, that gets me a little nervous. On the flip side, we have built next to the medical center in Dallas, where they just invested a couple of billion dollars on new facilities, which creates a lot of jobs.

The reason I talk about all these markets is because real estate is a very specific industry. This is where either wealthy individuals or institutions have placed capital to replace the yield that they were hoping to get in fixed income, or to create more stability than say equities.

We launched a private REIT called Rescore to build and own infill apartments long-term because we felt that having that income stream would be helpful for our investors. It may not be as opportunistic as our first two funds in Encore but it allows us to leverage our abilities to acquire properties cheaper, build a little better, and provide an income stream to investors, which means a lot right now because there are not a lot of areas where you can get that. People understand hard assets and are learning to appreciate them more.

So if we can build to a seven unlevered yield and sell it 5 or 4.75 or 4.5, we're breaking all these records. It's great for our fund investors, but then we've got to place that capital again, and in a world like we are in today, if we can build great assets that, we want to own those assets long-term. We were very excited to see how many of our investors followed suit and engaged in Rescore's long-term philosophy.



The U.S. is also changing slightly because there are no mortgages available for a lot of buyers. So rental prices are increasing dramatically throughout the country and people talk about an oversupply. And there will be some, because we are in a cyclical business.

But if you look at targeted urban environments, two things are happening there. People want to live in urban environments. The suburb areas are challenged, good times or bad. Even in the recession, we saw multifamily urban apartments do well. The second component is aside from being urban, they like the idea of having flexibility. Optionality is important to people, so to be able to move to a city, rent an apartment, and figure out if you like it, whether it's your job, the location, etc. People want to be transient. The whole sharing system is also changing the way things happen, whether it's Uber, boat sharing or crowd fund-raising. People like the ability to communicate with their peers and leverage each other's experience. Apartments give them the benefit of that. So we think it's a great play; long-term, a hedge against inflation, and great income even in downturns.

**Greg de Spoelberch**

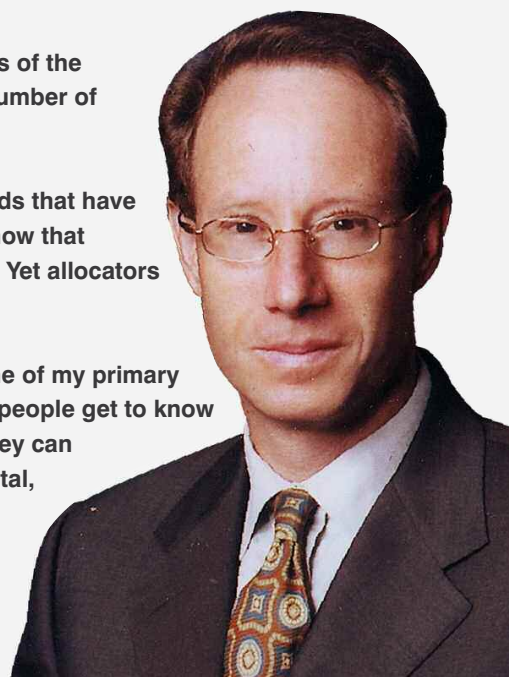
Not all of the managers here in Miami are as large as Universa. From your perspective, can you tell us more about the challenge to raise assets for smaller managers?

**Tom Krasner:** Just before the financial crisis, I helped to organize a group called the South Florida Hedge Fund Managers. One of our questions was how do you raise assets? We had a local fund of funds advising us to go to local firms and speak to them, and they would invest in us.

The truth is more complicated because being local doesn't mitigate the issues of the allocator needing to meet all the criteria, whether it's size, track record, the number of employees, or what the financial statements say.

According to some statistics, over 95% of hedge fund assets go to hedge funds that have more than \$500 million in assets. That's unwise because academic studies show that smaller funds, like ours, outperform large funds, hands down, year-over-year. Yet allocators still go to large institutions.

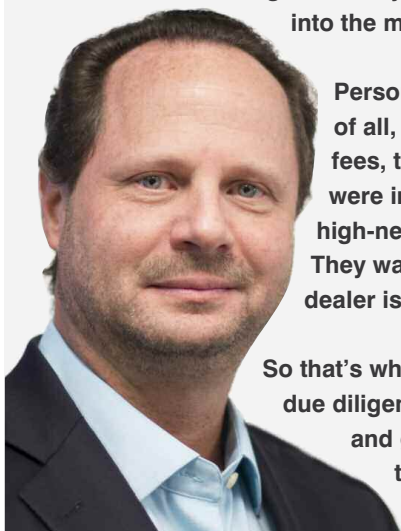
My experience has been that it's good to market locally, and I try to do so. One of my primary markets is our local investor base and family offices. The benefit here is that people get to know you. So once you've gotten to the point where they can check the box, and they can complete the rest of their due diligence on you, then if it's a local pool of capital, they are willing to look across the table at you, make a decision on your character, on your reputation, on what they see, and take a risk. That's much harder to find when you're going up to New York or Los Angeles, or another financial market.



**Julie Neitzel** I agree.

**Greg de Spoelberch** Any last thoughts?

**Andrew Jacobus:** In a recent edition of 'Worth' magazine, there's a very interesting article on independence. It talks about the reason why a high or ultra-high-net-worth individual would work with an independent registered investment advisor rather than a large firm. This is due to the fact that as an independent advisor, you have the ability to access basically any product that will meet the client's needs rather than having to sell a quota of products imposed by the organization you're working for. And they were talking about 3,000 new independent advisors coming into the market per year.



Personally, I've seen that quite a few of them choose Miami as an area to work, because first of all, you can be State or Federal registered, and that doesn't matter where you are. And the fees, the taxes and the cost for running an operation in Florida are much lower than if you were in New York. The industry is growing here, and a lot of the high-end, especially the ultra-high-net-worth individuals are interested in accessing it because they want that independence. They want to be able to say, "Look, I don't want to buy a particular fund that this big broker dealer is selling to me. I want you to get information of what's out there available."

So that's when you make the phone calls to the people that you've met throughout your circle, your due diligence and so forth, and you can find some extremely interesting ideas with good returns and good people, and that can help you raise a lot of capital because once you get a few in there, then friends and family may follow.



**Julie Neitzel:** One of the things that worries me as an investor is that we are in a low-return, single-digit return environment, so there's a low margin for error in terms of your investing activities to not lose money. In this environment of market volatility extremes, your returns can be easily wiped out with principal lost.

It is very important for investors to be mindful of that. What does that mean? Well, identifying talent is really important, being able to have different specialist managers in different asset classes and strategies is really critical because concentration of investing capital is what builds wealth, but appropriately diversifying your personal wealth and your investing activities is what allows you to sustain it over time. Thoughtfully allocating one's risk capital and being mindful of investment goals is critical.

Given the low margin for error in this investing environment, get professional help to identify the investment specialists that are good and proven, whether it's in real estate, multi-strategies, fixed income, or diversified type of investment strategies, including venture capital and private equity. It's really important to have a good mix within your portfolio, but identifying the solutions is challenging in the omnipresent investment product sales environment. Utilizing professional investment advisory support is essential in order to filter through the many poor performing investment strategies regularly pitched to investors.



**Nitin Motwani:** I think by the time we get to this Roundtable next year, we'll probably end up with the venture capitalist at the table, which is great, because that's also part of what's happening in Miami.

Aside from the hedge fund initiative, the DDA set out on a tech initiative. We worked with a group called Venture Hive. My company provided the real estate, the DDA and County provided some capital. We have a hundred employees, 35 different companies from 23 countries. But the really interesting thing is that they were actually able to partner with Microsoft to open the first innovation center in the country, in downtown Miami, which means all the great resources of Microsoft are coming here. And I just met with a very big successful venture capitalist out of L.A. who is spending more and more time here, looking both at venture capital and real estate. So that's another area that we'll continue to see.

Then there is our project, Miami World Center in downtown. We own 30 acres of land next to Fortress Investments who are about to break ground on All Aboard Florida, which is a \$2.5 billion private rail connecting Orlando, Fort Lauderdale, Palm Beach to downtown Miami. It is the first privately funded rail since Henry Flagler's in the 19th century.

We did a deal with MDM and Marriott to do a 1,800-room convention hotel, with 600,000 square feet of meeting space and a private format, which hasn't been done. Forbes and Taubman are doing a retail center anchored by Bloomingdale's and Macy's. There will be other things to announce. The first phase is \$2 billion.

So what do you do to de-risk such investments? You bring in first class people that are best in class to develop their individual components, and then they put up strong balance sheets and don't take out a lot of leverage because we live in a cyclical world. To Julie's earlier point, also in real estate there are low margins for error. But on the flip side, it's Miami; people are excited about certain cities in the world, and Miami is and will be one of them.



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