



Opalesque Roundtable Series '15

GENEVA

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Editor's Note

Swiss pensions: Opportunities but also strong headwinds for alternatives

According to the last ranking of the Economist Intelligence unit, Switzerland is the best country in the world in the “where-to-be-born” index. Geneva, a town of just 185,000 inhabitants:

- has more than 120 banks, 870 independent asset managers and more than 3'000 financial intermediaries;
- is the 1st ranking city in the world for the finance of commodity trading with 500 international trading and shipping companies, 35% of worldwide traded crude oil and oil products, 50% of world traded coffee and 33% of world traded sugar.
- 41% of Geneva's population is international and 30% speak English at work;
- the city ranks as number 13th in the Global Financial Centers Index and 3rd in Europe.

Geneva also benefits from having access to diverse type of investors: there is institutional money, retail and high-net-worth. While Swiss private banks have been early adopters of hedge funds and alternative investments, the Swiss pension funds still offer huge growth opportunities as the average allocation to alternatives is only 5%. This will include commodities, private equity, ILS, hedge funds and now because of new regulations, convertible bonds with CoCo features or bank loans.

However, what is coming into the industry's way is the fact that pension funds are now required to publish their Total Expense Ratio (TER). For example, if a pension indexes completely its entire portfolio and you add 5% to alternatives, then the pension's TER will verily likely double. *“Of course, it's the right focus, but the wrong logic. You should not focus on the absolute amount but on the risk/adjusted return you get vs. the fees you have to pay. I am convinced that we will be able to make that argument with investors, but it will take a long time”*, says Cédric Kohler, Head of Advisory at Fundana.

Another major impediment is that Swiss pension boards are now subject to the new 2012 LPP regulation which basically makes every board member 100% liable to everything the board does. That essentially means unlimited liability which you cannot delegate. Going into a hedge fund strategy which has had very bad press reviews and bad reputation is very demanding for the volunteers on those boards who usually have no training in finance.

However, many investors have no other choice to look for additional sources of returns. A classical allocation will now yield about 2.5% in Swiss Franc. This is below the rate they have to achieve to stay funded. So, institutional investors do now invest more in alternative strategies. Classic funds of hedge funds who direct their services towards institutions were able to grow assets by 50% over the last two years.

The Opalesque 2015 Geneva Roundtable was sponsored by IDS and Eurex and took place in Geneva with:

1. Cédric Kohler, [Head of Advisory, Fundana](#)
2. Fabio Alessandrini, [CIO Alternative and Quantitative Investments, Banque Cantonale Vaudoise](#)
3. Hasan Aslan, [Co-head Alternative Investments, Reyl & Cie](#)
4. Ian Hamilton, [CEO, Investment Data Service Group \(IDS\)](#)
5. Jerome Berset, [Senior Investment Counsellor & Head of Hedge Funds Research, EFG](#)
6. Markus-Alexander Flesch, [Head Sales and Marketing, Eurex Zurich](#)
7. Michel Dominicé, [Founder, Dominicé & Co.](#)
8. Roland Dominicé, [CEO, Symbiotics SA](#)
9. Steven Markovitz, [Director of Research, Lake Geneva Partners](#)

The group also discussed:

- How do Swiss banks select external managers today? And why do Swiss private banking clients use more external managers than ever before?
- Which client segments offer Swiss managers the most growth?
- Experiences with tail hedging
- Can CTA exposures be timed?
- The evolution and benefits of alternative risk premia
- How comes certain investors seem to prefer to lose money with a large established manager than consider a smaller manager, even when the smaller manager presents products with attractive track records, in vehicles that are widely accepted, and who hold the necessary licensing?

- Microfinance “made in Switzerland”
- A theory why hedge fund correlations stayed high even after the financial crisis
- Why investors and managers must fight the pull towards beta, which also means to stop comparing hedge funds to equity indices
- Regulatory update from the perspective of Swiss asset managers
- When do Swedish investors show you the door without giving you coffee?

Enjoy!

Matthias Knab
Knab@Opalesque.com

Opalesque Geneva Roundtable Sponsor



Participant Profiles



(LEFT TO RIGHT)

Steven Markovitz, Hasan Aslan, Jérôme Berset, Fabio Alessandrini, Markus-Alexander Flesch, Matthias Knab, Cédric Kohler, Roland Dominicé, Michel Dominicé, Ian Hamilton.

Introduction

Ian Hamilton
IDS Group

My name is Ian Hamilton. I head up the IDS Group, who are international fund administrators.

IDS in Malta serves Cayman, BVI and Malta funds. We also now are going into Mauritius because that's a very good entry point into Africa for private equity.

As to my personal background, I am a little bit of a jack of all trades, I have been a fund manager, and have also run investment management companies. In recent years I have used the opportunity to leverage off IDS's good administration company to set up another group called Scotstone, which is based in Europe and provides incubation and umbrella fund structures in Cayman and Malta.

One of my objectives is to provide cost efficient entries for smaller fund managers, because I am concerned about the pressures that AIFMD and various other requirements place on these managers. It is becoming exceedingly difficult for emerging managers to be able to get on to the ladder.

I am also a contributor to Opalesque's Emerging Manager's magazine called *New Managers* where I do a monthly column.

Michel Dominicé
Dominicé & Co

My name is Michel Dominicé. I am the senior partner and founder of Dominicé & Co, an asset management company based in Geneva. 11 years ago we launched a volatility hedge fund, hence equity volatility is our specialty. More recently we have launched a series of products that aim to protect investors' assets in the face of global financial crises. And I believe that we are going to see new crises due to the macroeconomic problems around the world.

Roland Dominicé
Symbiotics

My name is Roland Dominicé. I am the CEO of Symbiotics which is an asset manager regulated by the FINMA. We are based here in Geneva. We have an office in Cape Town as well as in London, Mexico and Singapore.

Our specialty is microfinance investments. We have a billion US dollars under management, split over 20 different funds on behalf of mostly pension funds, private banks and insurance companies, helping them access emerging and frontier economies, in high growth segments in the financial sectors in those markets. We typically work with non-listed companies in the form of mostly private debts and also a bit of private equity.

Fabio Alessandrini
BCV Asset Management

My name is Fabio Alessandrini. I'm the CIO for Quantitative & Alternative Investments at BCV Asset Management. You probably know BCV, the universal bank Banque Cantonale Vaudoise which is the fifth largest Swiss Bank. BCV Asset Management is the entity dedicated to institutional clients.

In terms of assets, we have about 15 billion CHF of which 7 billion are managed via funds across all asset classes and styles. My group is about 15 people strong, we focus on alternatives and quantitative investments. We manage mostly discretionary portfolios of hedge funds and commodities, and also various types of quantitative strategies, both in long-only and long-short format.

Besides that I also have some involvement in academia where for the last 10 years I have been teaching as a Professor at HEC Lausanne on various topics such as macroeconomics, finance and asset management.

Cédric Kohler
Fundana

I am Cédric Kohler from Fundana, where I act as Head of Advisory. Fundana is a Swiss-based independent asset manager with over 20 years of experience. We are essentially a classical fund of hedge funds, managing \$1.2 billion with a 7% annualized return since inception. We focus quite a bit on equity long-short. We have received many ratings from Standards & Poor's (Gold) or from Hedgegate (A).

Our typical client is an institutional investor but we also have independent asset managers who use us to access alternative strategies. We also advise a number of international and cantonal banks. We are quite active in the industry, for instance as being part of the AIMA Research Committee.

Jérôme Berset
EFG Asset Management

My name is Jérôme Berset from EFG Asset Management, the asset management unit of EFG Bank where I am taking care of the hedge fund research group. We are a team of five people. EFG has about USD 900 million invested in hedge funds, mainly through discretionary accounts and advisory mandates. We still have a classical offshore fund of funds that has been running for a while; however, the demand is clearly more on the advisory side for tailor-made and specific solutions involving hedge funds strategies.

At the moment, 80% of our client-base are high-net-worth individuals or clients of the bank. As many of you, we have also seen the interest from institutions grow a lot recently, so that is a segment where we are also more active now. I personally have been involved with hedge funds for more than 15 years.

Hasan Aslan
Reyl & Cie

My name is Hasan Aslan. I'm Co-Head of Alternative Investments at Reyl & Cie. Our company manages over CHF 10 billion and has a global presence.

We have a long history in hedge fund investing. Our investor base ranges from HNWI to Institutionals. We are currently managing two funds of hedge funds and provide tailor-made solutions for selected investors. We cover all hedge fund strategies and invest in the full hedge fund liquidity spectrum. Our focus, throughout the years, has been on diversification and risk management. An important point about us is that we have been able to swiftly respond to changes in investors' needs over the last couple of years. To illustrate this, the increase in the availability of hedge fund strategies in liquid format enabled us to broaden our funds of hedge fund offering in order to meet the demand. Next to the traditional multi-strategy fund of hedge funds, we are now offering a low volatility liquid alternative fund. 0

Steven Markovitz
Lake Geneva Investment Partners

I am Steven Markovitz, Director of Research at Lake Geneva Investment Partners. We were founded six years ago and currently have about \$700 million assets under management. We run two funds - one is a UCITS absolute return fixed-income fund, the other is an equity long-short fund, focused more on trading and arbitrage opportunities than a typical long-short fund. That fund is our flagship fund and has been nearly flat or up every year since inception, including 2008.

We do not offer 'smart-beta' alternative strategies, but rather manage our funds with the focus to add value and provide alpha in a non-correlated way. Our equity fund correlation to the S&P500 runs between 0.15-0.25, which is far less correlated than most other hedge funds, equity long/short or other strategies. We are a research and quantitatively driven shop, favoring algorithms and process over opinion.

Markus-Alexander Flesch
Eurex

My name is Markus Flesch, I represent Eurex here at this table. Eurex is, as most of you know, the biggest European derivative market and therefore a focused market infrastructure provider to pave a smooth way for institutional clients to be exposed to any kind of derivatives. Liquidity and transparency, the key topics of the financial world, are our daily business and we always looking for ways to improve the market environment irrespective of the dynamics in the regulation. In the early days it was more the market demand from the asset manager that was driving our efforts, but nowadays we need to strike a balance between offering products and services fulfilling the aspiration to generate alpha for fund managers, but which are as well designed to adhere to very strict rules of compliance. Our future offering is predominantly influenced by EMIR, Dodd-Frank or FinFRAG as it seems easier to integrate regulatory requirements rather than trying to find ways around it.

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



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Roland Dominicé: This is actually an easy answer for us. Geneva happens to be the main epicenter worldwide in terms of microfinance investments. So while it's just a rather small niche for global markets – just \$10 billion of private foreign direct investments out of a total market size of about \$100 billion – over 30% of those investments are managed in Switzerland and over half of that in Geneva.

It really started a decade ago, in a conversation between the east and west bank of the Lake Geneva, i.e. on the one hand the United Nations and the international Geneva and on the other side the private banking sector. Symbiotics was launched at that inception period, during the UN International Year of Micro-Credit in 2005, benefiting from all the early innovation happening at that time in microfinance.

The asset class is clearly more established here than elsewhere. Still, when it comes to the whole concept of investing in microfinance, meaning investing in small banks, in frontier markets with very high growth rates where the banking infrastructure is not existent, you still have a way to go to educate investors to the whole concept, which remains relatively new as an investment opportunity.

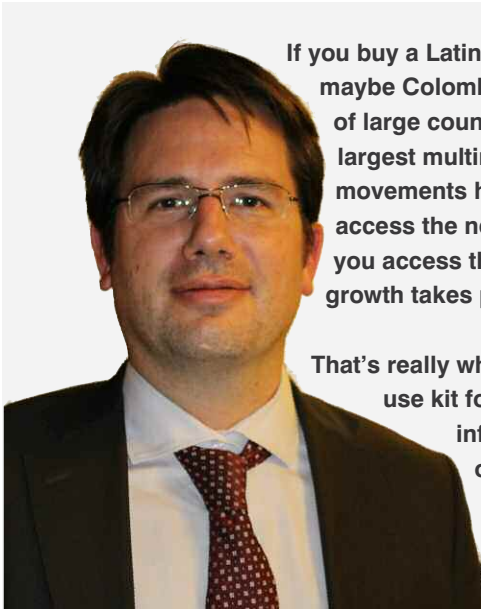
That being said, in the past decade we have built a specialty assisting large institutional investors accessing this market. We have invested over USD 2 billion dollars in over 50 different frontier markets; countries like Cambodia, Kyrgyzstan, Bolivia are big countries for us. We're working beyond the BRICS, even beyond the emerging markets like Turkey or Thailand. We target the vast majority of countries around the globe who are not necessarily connected or integrated in the global financial market.

This brings a big de-correlation to portfolios for institutional investors who can afford lower liquidity, but really are looking for growth. We all know pension funds don't have a great prospect in front of them here in Switzerland or elsewhere in Europe. As investors, we are all put off by the prospect of following the Japanese trend of the past decades. So when you come to them and say that we're actually in countries where the annual population growth rate is around 4% or 5%, which is huge, there's a natural understanding of the opportunity in those new markets. In particular as they don't benefit from large capital inflows but can really offer important value creation perspectives.



Roland Dominicé: Yes indeed, we function as a platform offering customized services to different banks or institutional investors wanting to access this space.

I was for instance recently with a large pension fund in Switzerland and they were explaining how convinced they were with the concept of increasing their exposure to new emerging economies. But they also realized how the access to those markets is often challenging.



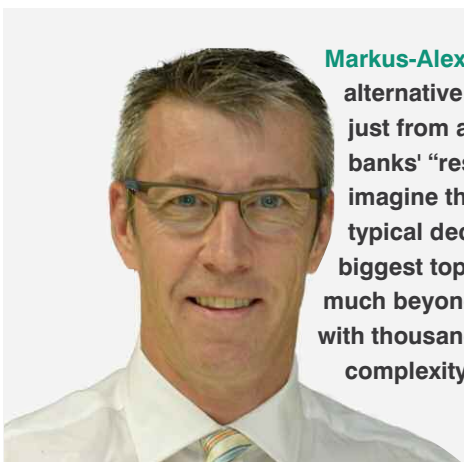
If you buy a Latin American bond fund, you're going to have sovereign debts from Brazil, Mexico, maybe Colombia, but the coverage is not very big in the end, working with a reduced subset of large countries only targeting their governments, or in some cases including some of their largest multinational corporations. And the volatility is huge because that's where the capital movements happen the quickest, at the margin of much larger portfolios. So how would you access the next layer: Bolivia, Peru, Costa Rica or Honduras? And in those markets, how do you access the real economy, in particular at the base of the pyramid where the highest growth takes place and where the capital is the scarcest?

That's really where we come in and what we can offer. The platform is really a sort of ready-to-use kit for any large bank who needs an access in markets where there's no infrastructure. There's no S&P or Moody's covering those niches, no Bloomberg or Reuters. Your broker or investment bank doesn't go there. Very few deals or companies from there are listed on regulated markets. So you need an agent who can really cover all the buy-side value chain.

Steven Markovitz

How do you find your opportunities? Having to disperse capital is one thing but how do you go about finding the good opportunities?

Roland Dominicé: You travel a lot, you go in those markets. As a rare agent, it's relatively easy at the beginning to meet all the local banks, all the actors who are there, and who are trying to get connected to international financial markets, but who don't necessarily have the track or just the credibility. We go that extra mile and really create a pipeline, connect them to larger flows, and grow with them. If you succeed in building a trustworthy relationship, for instance with a municipal bank in Peru, not necessarily even in Lima, but in Arequipa or Iquitos, very quickly most of their peers will come to you and provide an array of opportunities to build from.



Markus-Alexander Flesch: I think your company is representing a fast-growing investment alternative with a huge potential and growing interest globally which I believe is helpful not just from a general diversification perspective, but even more regarding the different central banks' "rescue programs". Though I personally have never managed microfinance, I can imagine that regarding your investment strategy, which is probably offered without the typical decent history and length of track record, transparency is probably one of the biggest topics. I could imagine that also here need to explain to yourself to your investors, much beyond the usual due diligence procedures. Especially funding investment vehicles with thousands of small little companies spread out in the investment universe adds a layer of complexity on transparency and data quality. How do you go about that?

Roland Dominicé: It's a very good point and that's really how we started: as a due diligence agent. It was our first value proposition to first-mover investors who got interested in the topic.

From our due diligences services, we became the main market research resource for specialized investors. We then grew an investment advisory function, which eventually grew into the regulated fund manager that we are today. The way to create proximity and transparency, with a little bank in Tajikistan for instance, came about by building recognized due diligence and monitoring procedures, training numerous staff and investors, and developing online data management and reporting solutions.

One thing that has been key to our success is that two of our founders are IT engineers who initially helped the UNCTAD and World Bank build systems to get appropriate reporting from microfinance markets. So very early on we had an information platform that of course didn't replace an exchange or a regulator, but that allowed to build this proximity and transparency with target companies. Today that platform – www.Syminvest.com – has between 300 and 400 micro-banks who report to us on a monthly basis, in addition to numerous KYC, AML, desk review, credit risk and ESG reports.

Overtime we can say that we really have a clear picture of our investees, which is complemented with monthly calls and regular visits. We provide internal ratings or valuations for investors, and in general try to make the life of our clients as normal as possible in reference to their other investing activities. On the other side of the value chain we help create a track record, gradually increasing exposures, through multiple investors and funds, which positively increases the visibility of the investees.



Fabio Alessandrini: I happen to have been in contact with some of your representatives. In my view this topic of microfinance definitely adds something to the ethical dimension of investing, and that is something that we strongly need in the industry. Compared to all the scandals and the different negative things that have come out of finance recently, microfinance and such types of investments are adding a dimension that is beneficial to the industry.

It looks like it's more kind of an institutional market, but I was wondering whether you find some traction also on the retail side. To me, the retail client, the people that read the newspapers, could see microfinance as an interesting alternative. It's bringing them the kind of yield that they need, and they might also appreciate the ethical dimension and the usefulness of the finance. So in theory, I could see a good amount of traction on the retail side, but I don't know if that is the case and if there are indeed vehicles for smaller investors.



Roland Dominicé: That's another excellent point. As I mentioned, none of these deals are traded or listed anywhere and so by definition, they are more illiquid. Some investors want to build retail products entering that space, pretending that they face liquid markets, but ultimately, they are speculating on the solidity of their misbalance between redemption and repayment schedules. Symbiotics tends to prefer to work with institutional investors who have at least three to five year horizons and who are fine not keeping cash to create liquidity. Managing cash is not what we are mandated for, it drives the yield down and puts immense pressure to invest when building up to quickly – not to mention redemption challenges when it flows out unexpectedly.

Another aspect that's very important is that you are targeting countries that are low income by definition, and so you are looking at low income households, which are also by definition a bit more vulnerable than wealthier ones. This generates greater expectations and volatility in the behavior of more emotional investors, like retail investors. Retail and private investors buy-in to our markets probably more due to their social development impact perspectives than larger institutional ones. It's a great thing, in itself, but also for retail sales agents who have a more simplistic sales story.

But the emotion can go the other way around quickly if one pulls too hard on that cord. Microfinance received the Nobel Peace prize in 2006 thanks to Muhammad Yunus, the founder of Grameen Bank in Bangladesh. This generated very large inflows from retail and private clients, which bought the shortcut of "microfinance-creates-peace-on-earth"; many were disappointed during the global financial crisis and that criticism was logically voiced in the media at the time.

The decision-making with institutional investors includes a lengthier professional economic analysis. We try to convey the message that at a systemic level, we push money where it normally doesn't flow, and in those places we build the financial infrastructure at the base of the pyramid where there's lack of it. We also promote enterprise finance, as well as agricultural and housing finance, allocating capital to underserved niches. If such investors believe in the potential of frontier economies, they also understand that by starting with the regulated financial sector, non-listed on stock exchanges, provides for a safe and more stable value proposition. They also understand that by picking financial institutions that diversify very widely and bet on a clientele that is the most underserved, they minimize their risk, and ultimately of course maximize the socio-economic perspectives and development impact they face. This lengthier discourse provides further comfort to institutional investors, which by committing to longer durations allow their fund managers to be more flexible and appropriate in their strategy and portfolio management, than with retail funds.



Matthias Knab

That was a great insight into microfinance. Any other comments about alternative investments, or Geneva in particular?



Ian Hamilton: A lot of people recognize today that there's a transition in terms of investors from the traditional high-net-worth individual to the institutional investor in hedge funds. This is placing a lot of strain on certain fund managers who were rather freewheeling in the hedge fund industry on issues such as lack of transparency, governance issues, etcetera. I see how managers in Zurich or in other countries recognize that the future lies with institutional investors. I wonder where Geneva or the players here are positioning themselves?

I want to include the use of UCITS in this discussion where I also see a lot of investors offering these structures because they want the retail investor. I am actually glad to hear from some of you that you don't want the retail investor, because he tends to be fickle. He wants to go in and out of funds, and with one bad headline he's gone. I have actually seen the collapse of fund of funds who had concentrated their business on the retail side.

Who we are and what we do?

The IDS Group is an independent fund administration group which was founded in 2002. We specialize in providing back office services to alternative asset managers including hedge funds, funds of hedge funds, private equity and property funds. We are the largest fund administrator in Africa with assets under administration of approximately \$6bn and international offices in London, Malta and Mauritius. Our clients trade all investment strategies and we pride ourselves on providing a tailored solution to meet their differing requirements.

What sets us apart?

Understanding your business is our business. Our clients vary in terms of size, location and complexity but we treat every client as an important client. One size does not fit all. Our experienced team works with our clients to ensure complete understanding of their requirements and provide detailed and bespoke solutions as well as ongoing advice, assistance and support. We continually review our processes and integrated range of products and services to ensure we maintain the high service levels that our clients expect from IDS.

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Whether you're looking to launch a new fund, make a transition to a new administrator or simply wish to outsource some of your processes, we have a solution to suit your needs.

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Cédric Kohler: For sure our alternative industry here has gone through significant changes. On the demand side, new regulations as well as the 2008 crisis have led private banks to retreat significantly from that sector despite what they would like to admit. Some very large banks actually recommend zero allocation to alternatives.

On the institutional side, yes inflows are coming from pension funds but that's a worldwide story, and predominantly an anglo-saxon one. If you speak to Swiss pension funds, you will realize very quickly that the average allocation is about 5%. This will include commodities, private equity, ILS, hedge funds and now because of new regulations, convertible bonds with CoCo features or bank loans.

So what you have to realize is that a lot of Swiss investors are really questioning the value proposition of hedge funds, either because they came in too late (i.e. they got stuck in 2008, not understanding why they had 15% allocated to these investments and why this allocation was down 20% while they were told it was absolute return). Another point I often hear is that when they allocate 5% to hedge funds, they say I want to spend 5% of my time understanding what's in there, but not more.

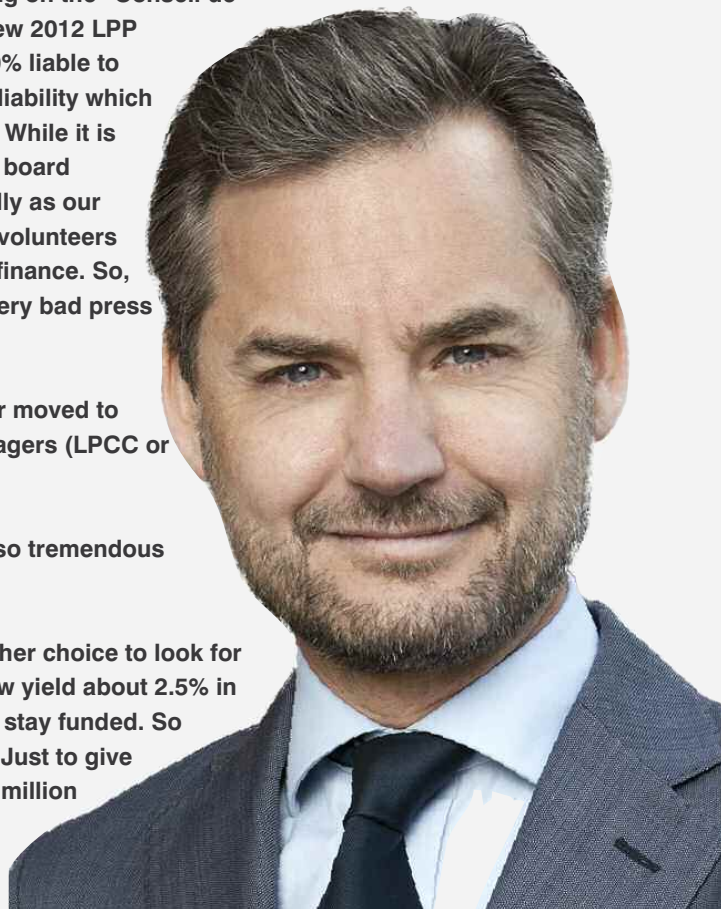
Another big discussion that's been going on in Switzerland - and I believe we are about the only one on the planet doing this - is a new requirement for pension funds to publish their Total Expense Ratio (i.e. TER). So, if you have a pension fund indexing completely its entire portfolio and you propose to add 5% to alternatives, then your TER can double at the pension fund level! Of course, it's the right focus, but the wrong logic. You should not focus on the absolute amount but on the risk/adjusted return you get vs. the fees you have to pay. I am convinced that we will be able to make that argument with investors, but it will take a long time.

Another critical point one has to realize is that people sitting on the "Conseil de Fondation" (i.e. board of trustees) are now subject to the new 2012 LPP regulation which basically makes every board member 100% liable to everything the board does! You essentially have unlimited liability which you cannot delegate. If found guilty, you can end up in jail! While it is good to provide the right incentives, this is scaring a lot of board members and making them extremely risk averse. Especially as our system is not a professional one and you essentially have volunteers making up these boards which usually have no training in finance. So, for them, to go into a hedge fund strategy which has had very bad press reviews and bad reputation is very demanding.

On the supply side, many competitors have disappeared or moved to other cities while the new Swiss regulations for asset managers (LPCC or CISA) have changed the landscape dramatically.

So it's been very difficult, but having said this, there are also tremendous opportunities.

At the alternative industry level, many investors have no other choice to look for additional sources of returns. A classical allocation will now yield about 2.5% in Swiss Franc. This is below the rate they have to achieve to stay funded. So institutional investors are coming to alternative strategies. Just to give you a sense, we have grown from January 2013 from \$850 million AUM to \$1.2 billion now without doing some major innovation.



Cédric Kohler: It was coming from Switzerland and from outside. I think what people actually enjoyed was our stability in terms of team and products, i.e. no innovation for the sake of just making changes. There's just a little bit of innovation in how we deliver the product, whether it's through a fund of funds or a mandate. But not much more.

You have to realize that it is now very difficult for this industry to operate in Switzerland. We have had a tsunami of regulations whether it's the U.S. one (FATCA), the European one (AIFMD), or the Swiss one (CISA). And making things worse is the fact that FINMA (the Swiss regulator equivalent to the SEC) has taken the view that Switzerland is not a production but a distribution place, irrespective of the fact 15% of the Swiss GDP comes from finance.

These regulators are making essentially financial innovation next to impossible. If you want to launch a new fund here for Qualified Investors, it takes at least 6 months in Switzerland versus just a few weeks in Luxembourg. If you want to register as an asset manager, it's also quite cumbersome and in short you need an organization of at least 10 people and 300 million AuM.



Now, we need to have regulations. This will make us more credible in the long run, but at some point we need to be careful not to have too much of a Swiss finish, which is currently the problem.

On the bright side, there are many good things going for Geneva:

- 41% of our population is international and 30% speak English at work
- The city ranks as number 13th in the Global Financial Centers Index (3rd in Europe)
- Geneva has more than 120 banks, 870 independent asset managers and more than 3'000 financial intermediaries
- Geneva is the 1st ranking city in the world for the finance of commodity trading with 500 international trading and shipping companies, 35% of worldwide traded crude oil and oil products, 50% of world traded coffee and 33% of world traded sugar
- Biopharma and microtechnologies are also key sectors that have worldwide reputation
- The average corporate tax rates goes from 12 to 24% and VaT is only 8%

And according to the Economist Intelligence unit, Switzerland remained in 2013 the best country in the world in the where-to-be-born index.

Hasan Aslan: I want to share some thoughts regarding one of the significant changes we have seen in the industry and consequently how our way of selecting managers has evolved through time.

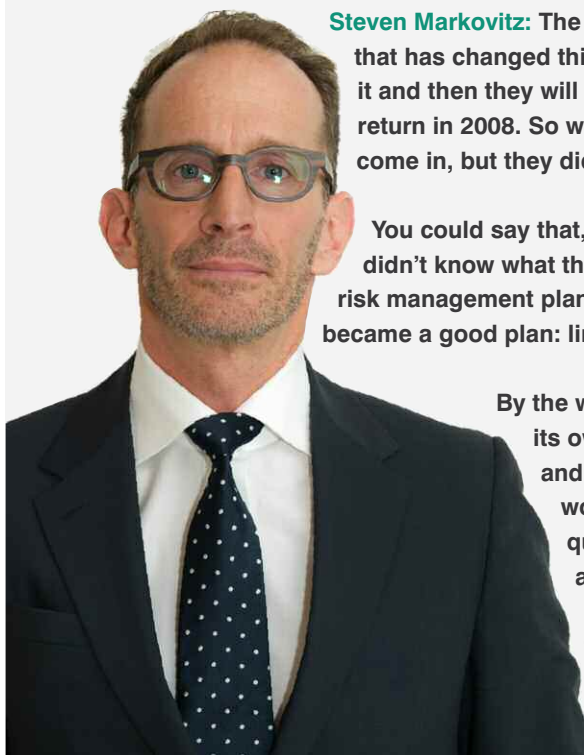
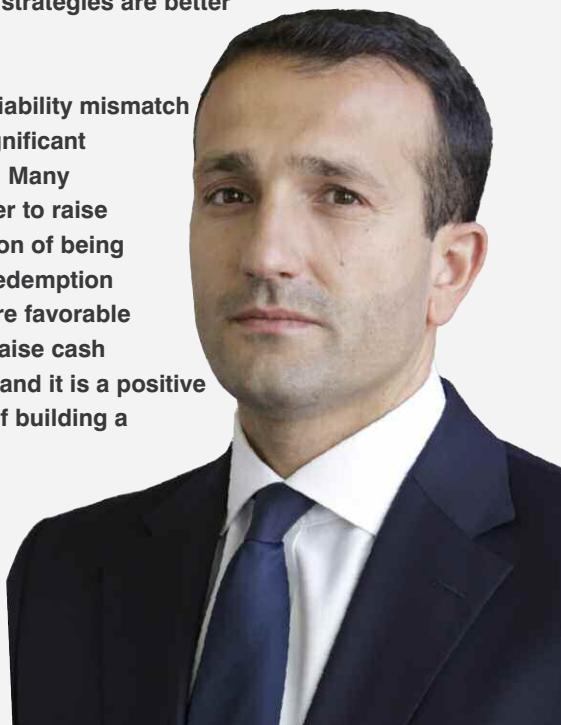
Pre-2008, you will certainly recall many successful day-one fund launches. These managers, well-recognized because of their pedigree, were able to attract a couple of billion dollars during the first months of operation. That situation has dramatically changed after the credit crunch period. Today, you can see many managers operating between \$200 and \$500 million of assets. They can, at such level of assets, properly do their job and be profitable. Their business is readily scalable.

The solidity of their infrastructure in terms of investment process, legal and operational framework, and risk management is comparable to multi-billion shops in my opinion.

So for us as allocators, while in the past we tended to do more business with larger hedge funds, we have adapted our approach to the new environment. We are therefore not constraining ourselves. We believe that there are many interesting names in small- to mid-size funds that offer unique opportunities by investing in trades that are being considered as too small for the largest hedge funds. Also, an important element is that you are rather viewed as a partner than an investor. We have experienced that with smaller managers. You get a lot more transparency and collaboration from them. That being said, we recognize that a number of strategies are better represented by larger hedge funds and in this case size matters.

Additionally, more and more investors have been questioning the asset-liability mismatch at hedge funds level. Therefore, on the liquidity front, we have seen a significant evolution as well. The liquid alternative space had a strong growth lately. Many companies have launched the liquid version of their flagship fund in order to raise assets. The reason lies in the fact that some investors have the impression of being invested forever with hedge funds, considering the notice, lockup, and redemption frequencies. Therefore, for them in order to reconsider hedge funds, more favorable liquidity terms are required. Investors simply want to have the ability to raise cash relatively quickly if needed. In my opinion, this is reshaping the industry and it is a positive development from an investor standpoint. It is providing the possibility of building a diversified portfolio of hedge funds for a specific set of investors.

Despite the industry undergoing pressure from the regulatory side, I believe that this will have a positive impact in general. Some standardization was required in order to protect investors and provide them with an improved image about the hedge fund industry and its corporate governance.



Steven Markovitz: The cloud of regulation is clearly upon us from 2008, and as Hasan said, that has changed things a lot. Do you remember the time where people were saying, “build it and then they will come”? For example, speaking personally, we actually delivered 6% return in 2008. So we sat back there and opened the champagne waiting for the assets to come in, but they didn’t come.

You could say that, in a way the investing public, whether it was retail or institutional, didn’t know what they didn’t know. This was the lesson of 2008. So actually for lack of a risk management plan, the wide acceptance of UCITS by both managers and investors became a good plan: limiting credit risk, limiting position size, increasing liquidity.

By the way, I come from New York, where I worked for Bankers Trust which has its own long history in pioneering derivatives, and then for Deutsche Bank and Millennium Partners. So you could say I moved from a fast moving world to a much slower moving world. I can see how FINMA is trying very quickly to go from zero to a hundred in three seconds, while the SEC and the FSA have long histories of doing something, or doing nothing, but certainly long histories. So, the FINMA, in its attempt to grow from the little acorn to the mighty oak, is absolutely stifling the growth of the smaller manager.

When someone like Hasan says he happily invests with the smaller managers, that's music to my ears, but I don't think this preference is shared by many others. There are many banks and many large institutional investors that prefer to check boxes than invest creatively. In effect, they prefer to lose money with a large established manager than consider a smaller manager even when the smaller manager presents products with attractive track records, in vehicles that are widely accepted, and who hold the necessary licensing. As a smaller manager, this is a headwind we absolutely feel, especially from our potential investors – our bank and asset manager neighbors.

Matthias Knab

Steven, looking at your firm, you did grow over the years. Where was that growth coming from?

Steven Markovitz: Well, we're doing just what we do and focus on delivering returns. We concentrate on our target market which for us is mainly Switzerland. We also go to the U.K. and the North European countries, and of course each market is very different. For example, we just came back from a trip to Sweden and found that the Swedes more or less don't really care about returns, but rather seem to focus on total expense ratio.

You can have the best returns and the best story, but first thing they will ask you is, "What's your total expense ratio?" And if it's above a certain value, they kind of show you the door without giving you coffee.



Matthias Knab

Australia is another country that has implemented mandatory rules for pensions regarding fees and total expenses.



Steven Markovitz: Right, so what we are doing is going slowly and telling our story. Metaphorically, we talk about how we "slice the bread": how we invest, where it works, where it doesn't work, and some of the reasons we believe why it will continue to work.

As we have already mentioned, the bar of regulation has been raised. We are one of the few Finma licensed fund managers in Geneva. Holding the license raises our expenses significantly. Some of the changes we have had to make have been marginally positive for our own risk control. Many of the changes have added nothing and raised our costs. Still, we are checking the boxes to play the game, and we're living with it.

Michel Dominicé: I believe the total expense ratio is an extremely important subject, mainly due to two reasons.

First, major currencies offer zero yields. If yields are very low, investors pay attention to the cost of managing money because this is going to make a big difference on the global portfolio performance.

Private asset managers buy more ETFs in order to be more cost efficient. Many of them do not even believe that these products will produce alpha. And they doubt in alpha generation capabilities of the fund managers. However they want to demonstrate to their clients that they pay attention to cost.

Secondly, investors want more transparency. You can see that in different areas of our life. In part this is due to the advances and developments in the information technology. This is also one of the reasons why retrocessions are less and less accepted by investors and regulators. Again, this is a question of being transparent, knowing exactly what you pay, to whom, and for what.

There is another factor at play in Switzerland. We all know that banking secrecy does not exist anymore. In the old days investors who entrusted assets with a Swiss bank also wanted their depository bank to manage the money. Clients typically did not want to hire an external asset manager, because that would have added a layer of risk from the tax and discretion perspective.

More recently investors found that external asset managers are more competitive than the deposit banks. While we will probably see consolidation among external asset managers, overall this sector should gain market share.



Jérôme Berset: Clearly, the hedge fund world has changed dramatically over the years, we all agree about that. What's interesting about Geneva is the range of investors we have here. We have institutional money, retail and high-net-worth as well, and that gives us as an industry a good base here.

In a certain way, prior to 2008 hedge funds were more treated as one asset class. With the crisis certain liquidity mismatches became obvious, and since then the hedge fund has kind of morphed into two sub-asset classes where on one side you have the really illiquid stuff, almost like private equity, and then you have the more liquid strategies that can be structured as UCITS or 40 Act Funds in the U.S.

EFG is a Swiss bank, and we also have offices in places like Hong Kong, Singapore, Miami, or in France. That means we have Swiss, European and also non-European investors. We therefore have demand for all those sub-asset classes. That means that as a product provider, you need to be much more flexible now: you need to have UCITS vehicles for certain clients, 40 Act Funds for others, and you can have illiquid offerings for probably the more institutional type of client or family office, who, by the way, can also be very sophisticated and follow an institutional approach.

What is a type of challenge is the amount of education you need to do with your clients, particularly retail investors. In addition, you need to very well understand their investment horizon and liquidity needs. For some clients, it would be wrong to talk about investments with a two year lock up. Others may be interested in a certain mix of illiquid and liquid. Probably being flexible is key at the end of the day. That is also why probably the model of just running one classical fund of hedge funds may run into trouble at some point. I think it is important to evolve.



Cédric Kohler: Again, I think we have to be clear here. Some firms and funds have done very well with a classical fund of fund (we have grown for the last 20 years and still are). However, if you did not add any value then clients kicked you with their feet and redeemed. So, it has become much harder but that does not mean that it is not possible to raise assets.



Jérôme Berset: We also have our own fund of funds, but that one for us isn't growing, probably because our investor base is very different from yours. Most of the demand we have is for tailor-made solutions and advisory mandates where we construct portfolios with different profiles. But again, the key is to be aware of what the client wants and what the client expects, and then having the flexibility and choice when it comes to the right investment products for the client, and that includes vehicles like UCITS or 40 Act Funds.



We should keep in mind that also retail investors need alternative investments because otherwise they would just be invested in stocks and bonds. Like any other investor they also need uncorrelated strategies to be able to help their portfolios when something goes wrong. They may also need some more aggressive strategies over certain periods of time. So that is why we as product providers also need to evolve. Adaptation and flexibility is the key for us, I believe.

Markus-Alexander Flesch: I want to come back for a moment to Stephen's comments regarding regulations. I think all of us have foreseen some time ago that regulations will increase, and therefore costs will increase accordingly. Though it has been perceived as a burden and cost driver, we as well recognized at least to some extent that regulation did what it was designed to do: increase of transparency, trust and also confidence from the investor side, which is per se a very good thing.

Having said this I am not sure if I agree with the statements regarding timing and speed, and I specifically with the diligence applied by our own Swiss regulator FINMA I have my doubt if we can describe this “problem resolving mechanism” with the term from 0 to 100 in 3 seconds. If you look at the recent three years and what happened since with FINFraG and FIDLEG, we are dealing with a pro-lengthened process, irrespective of the acknowledged complexity. The perception is that it takes forever and this is exactly the decisive point, because this perception provokes subsequently “avoiding strategies” like shifting assets to unregulated multilateral trading facility (MTFs). Especially the evasion of asset will harm, since to “re-patriot” assets from other places is taking much more efforts, as costs and processes are deemed to be cumbersome.

As globally the regulation seems to be in different phases, an alignment is more than advisable since any uncertainty and regulatory loopholes are creating counterproductive regulatory arbitrage leading to more non-transparency than clarity.

Dodd-Frank is by far more advanced than the EMIR. Still, EMIR is already well-established in the European markets here, but FinfraG is lagging almost 1,5 years behind. And here the issue starts, as a Swiss bank operating in Europe and Switzerland needs to adopt processes and procedures according to EMIR without having the comfort of knowing to what extent this will then also comply with the Swiss law.



The danger of a “Swiss” finish and the Swiss law “too big to fail” with all its directives will force some big players to move assets in jurisdictions with a more reliable, i.e. known framework. I don’t question regulation, but the initial credit given by the investor will fade, if the Swiss regulator will not speed up to provide a clear and reliable Swiss investment arena, be it with FIDLEG or with FinfraG. Finally it even doesn’t matter whether it might only be a “copy-paste” set-up to EMIR, as long as the regulatory vacuum will disappear quickly.

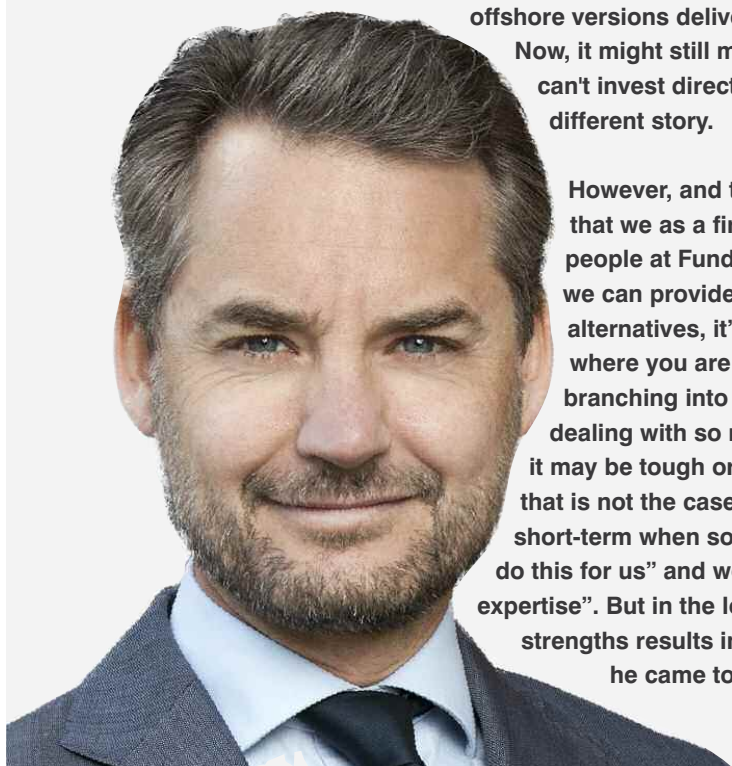
Matthias Knab By the way, what’s a Swiss finish? We should maybe explain that metaphor...

Cédric Kohler: Well, apart from the Cup Davis, a Swiss finish typically refers to the process of essentially taking whatever international regulation there is and making the Swiss version stricter. Think of the Basel requests for banks tier 1 capital requirement. That’s the proverbial Swiss finish.

At Fundana, we see regulation really as the minimum standard. The reality is that when you have institutional accounts, they actually demand much more than what the regulator typically asks. The only thing we are asking FINMA is to realize that if you want to open a fund for Qualified Investors for example, it should go a lot faster than to open a retail fund product. That would be a really nice thing to achieve. But, let’s be clear, there is only one way to do this: people like us have to go to Bern and engage into a dialogue with FINMA and with our politicians.

I agree with Michel’s point about the independent financial advisers (IFA). This is a very Swiss phenomenon, and indeed they are taking a huge market share from the Swiss banks. Small to medium sized private clients are finding much better services with these IFAs than with large banks.

Finally, regarding innovation, I think it’s good to innovate, but so far a lot of our discussion was about fund structures and the likes. But what the client in the end is really looking for is performance. So we can innovate all day long and come up with new structures, but if at the end of the day your UCITS fund has a zero performance while the other offshore versions deliver better returns, people will go for the better numbers. Now, it might still make total sense to offer UCITS because some investors can’t invest directly into offshore hedge funds for tax reasons, but that’s a different story.



However, and this is where I disagree a little bit with you, I don’t believe that we as a firm should strive to do everything for everybody. We are 15 people at Fundana, and we believe we have to be very clear about what we can provide and build around that. So when it comes to say liquid alternatives, it’s like a second order discussion. First, you have to decide where you are good at and make sure that you exhaust this before branching into other things. I can understand that a bank like EFG is dealing with so many requests from so many different types of clients that it may be tough or impossible to exclude something from your focus. But that is not the case for a smaller firm. We may have our hard moments in the short-term when someone says, “We like your approach, and we’d like you to do this for us” and we have to say “sorry, but we cannot do it; it’s outside our expertise”. But in the long-term, I think sticking true to yourself and your strengths results in a much better relationship with the client. He knows why he came to us and we know why we have him.

Fabio Alessandrini: Maybe I'll share with you one of the concerns of our clients, which is to some extent related to a few points that have been raised here.

Cédric mentioned attractive performance, which is one benefit or promise on which we have sold hedge funds historically. It's about a good risk-adjusted performance; that was one point. The other point we typically raised was diversification. If you add hedge funds to a portfolio, they were able to diversify risk in the odd times.

Then 2008 happened and, naturally a lot of people have been disappointed by weak performance but clearly also by the failure to diversify. There have been many debates about why that happened and we all know the exceptional nature of the crisis linked to factors like excess credit and leverage that could explain the failure.

The real problem however comes post 2008. Performance has improved somewhat, but still remains well below what we observed before. In a world where rates are low, clients however can tolerate that. The most important disappointment comes mostly from the diversification angle. Investors involved with asset allocation will foremost look at the correlation with the equity market. Before '08, the correlation of hedge funds with equities was around 0.3-0.4. During the crisis, it climbed to 0.8 and therefore the failure to diversify. But in the following years, including the present moment, that correlation has never really declined to the pre-'08 levels. And that notwithstanding the fact that the environment has normalized. Consequently, investors rightly question the ability of hedge funds to diversify.

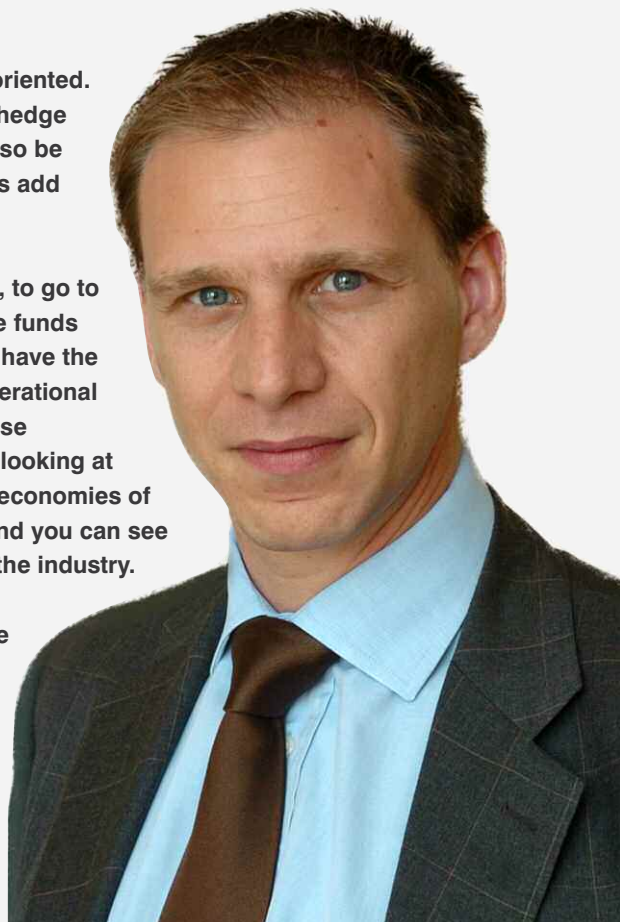
Now, even within a portfolio of hedge funds it is becoming increasingly difficult to diversify. If you are analyzing hedge funds' performance month by month, I find it incredibly surprising to see how many hedge funds are doing the same type of performance to the single digit. That means it has become much more difficult to create a portfolio of diversified hedge funds.

We asked ourselves what are the reasons for that? I'm not sure we have the answer, but we have certainly our hypothesis that is in a way related some of your earlier comments about the institutional market and the fact that the hedge fund industry is becoming more and more institutional.

The point here is that the institutional clients are more benchmark-oriented. They look at benchmarks and compare the performance of a given hedge fund to its benchmark. What's more, that hedge fund investor will also be looking at what the neighbor is doing, and here you go: those things add up to more correlation and uniformity, in a way.

We also mentioned the trend, particularly from the institutional side, to go to the larger managers. That in a way also questions the fund of hedge funds models because many pensions that are large enough believe they have the resources to do some of that work themselves. They may do the operational due diligence themselves, but most will outsource that or actually use consultants. And we all know that obviously the consultants will be looking at exactly the things that everyone is looking at for obvious reasons - economies of scale. They also add to the concentration into larger hedge funds and you can see now how and why the inflows have gone to the larger structures in the industry.

The thing is that the largest players will by definition also have more similar positions to each other, resulting in a much higher correlation of the managers among themselves. While I am not sure if this hypothesis is valid, we know diversification is really something that investors are expecting from the hedge fund industry. Therefore, our question is what is the best way to achieve diversification and to keep it?



Roland Dominicé: Microfinance investments are considered as an alternative investment by investors and regulators, and yes I would also say that we are rather uncorrelated to the equity markets.

Regarding our previous discussion about multiple or single product offerings, we found what works for us is to offer a distinctive solution or product for each market. We found that we have to play by the investors' rules, each in distinctive regulatory settings. I mentioned we have a billion U.S. dollar portfolio, but that is the aggregate of about 20 different products we created for each distinctive clientele: for Swedish pension funds, for a large Swiss pension plan, for an Austrian hedge fund promoter, for U.K. non-profits, for Liechtenstein foundations, for European development banks, for German family offices, and so on.

I wanted to support Jérôme's comments about offering diverse products for different clients, as we found that ultimately this customization effort works well for our firm. It also shows that despite regulatory challenges everywhere, the private sector can still find solutions, be innovative and flexible to address the needs of its different target markets.



And again, regarding Fabio's comment on the diversification of strategies, innovation is needed on both the sell side and the buy side of investment products. In that sense, microfinance offers access to untapped markets that have the potential to better diversify portfolios and achieve better overall risk/returns.

In our case, our core strategy outperforms the microfinance index (SMX) which has delivered 4.0% annual net return for 0.60% volatility since its inception in 2004. We have literally created a straight line over the past decade, which is something that institutional investors appreciate, particularly pension funds. For other investors with a higher risk appetite we have slightly more volatile strategies with 6% to 9% absolute USD return targets, which include exposure to unhedged exotic currency markets. And for investors who want to go the extra mile, we can do some private equity in frontier economies.

Investors who go up the learning curves in microfinance discover multiple innovations in investment strategies. This is what has been driving our growth as a firm. And similarly again, on the sell side, we have been able to offer different products for different types of investors in different jurisdictions.

Michel Dominicé: I was astonished that investors were surprised by the increase in hedge fund correlation to equities in 2008. Even before the crisis one could see that the correlation between hedge fund and equity indices was constantly increasing until it reached 70% to 80% level. So it was not a big surprise that when the market finally collapsed, the hedge fund index followed.

We are managing a truly de-correlated strategy. 2008 was actually one of our best years.

In my opinion the problem is the discipline amongst investors in selecting hedge funds. Bull markets create a huge pressure on everyone. It almost seems that investors consider the S&P as a benchmark for everything, and that is obviously wrong.



It comes down to a making a choice: do you want a beta strategy for your entire portfolio (hence why pay hedge fund fees for extra beta)? Or do you want diversification in the portfolio? If you choose to pay for the diversification, you should make sure you understand the strategy and its performance in the current financial environment.

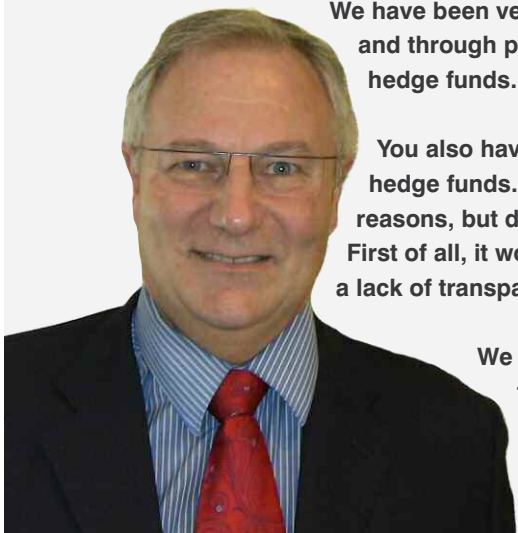
Ian Hamilton: If you go back and read the Opalesque 2014 Roundtable, managers then were actually calling themselves “reluctant bulls” because they were hammered by their investors for underperforming at the various industries. But this is where the hedge fund industry, even today, needs to speak out and educate your investors. Hedge funds are no longer the funds that will outperform every market but are also about protection on the downside, so by definition they can't participate in the whole upside.

But the deeper issue is when investors like pensions are restricted by regulations to allocate only a minimal part of their assets like 5% to hedge funds. Then what they do is lump every strategy together. This to me is self-defeating for the pension funds if you're trying to use such minimal hedge funds exposure as a bit of insurance on the downside.

We have been very fortunate in South Africa where our regulator has recognized that issue and through pressure from pension funds we were able to lift that threshold to 15% for hedge funds.

You also have to look at what happened with CALPERS when they decided to pull out of hedge funds. They were happy with the returns, so the withdrawal wasn't for performance reasons, but doing all that work for just 4% of their assets was a waste of time for them. First of all, it would have no effect on the portfolio. Second, they were also concerned about a lack of transparency.

We also have to acknowledge that it's a lot of extra work for the pension to make that kind of decision to allocate to hedge funds. So really, one of the things hedge funds need to look at is making it easier for somebody to make the investment choice, and that comes through transparency.



Jérôme Berset: I think this correlation and diversification discussion Fabio is bringing up is really important. It's true that a lot of people, even very sophisticated investors and analysts, are looking at a global hedge fund index and put out a sigh: “Yes, I know. It's not doing well. I'm not happy.”

But then, I don't know how many times I've tried to explain and communicate to investors urging them to look at different strategies from a different angle. There are uncorrelated strategies, there are things like carry strategies etc., and then you have directional strategies, and those directional strategies tend to be hurt when the market will wither.

Even if you show them that some uncorrelated strategies have performed well or may have been uncorrelated, they would still look at the S&P, just like Michel also said. That is mostly a lose/lose game. But it's still our job to try and continue communicating correctly that they should always consider a 5% to 20% allocation of the right hedge funds in their portfolios because they will bring them performance when they need it. Communication, education and flexibility is the key for us to continue to grow our business.



Steven Markovitz: We call ourselves equity long/short but really we are an equity trading & arbitrage fund. We focus on sectors and country indices rather than individual stocks. There is no bucket for what we do exactly, so rather than being a wagon-train of 1, we jumped into the long/short bucket.

Specifically, we take short term bets when a security or market gets overvalued or undervalued relative to another security or market. Because we have several different models focused in different geographies, one model may be a seller of 'Japan', for example, while another model is buying the S&P. Hence our net equity exposure is rarely above 30% and generally is between 5-20% of NAV. This is very different from your typical long/short fund. Hence our return stream and our correlation to the S&P500 is very different. And different in a good way.

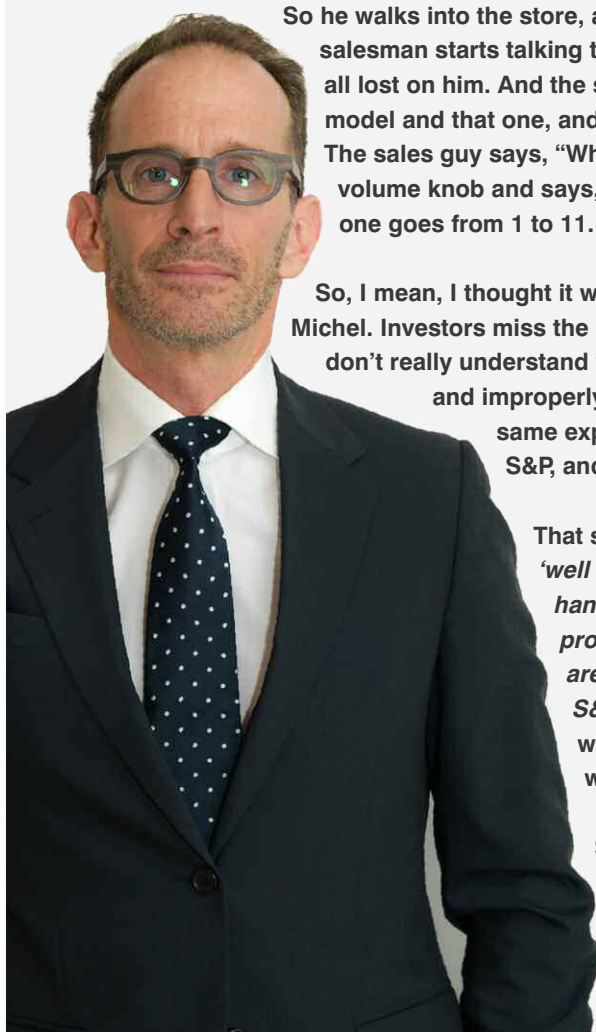
I was listening to the discussion of the other participants and I kept thinking of this Rob Reiner movie called 'This Is Spinal Tap'. It was a fictitious documentary made about 30 years ago in the U.S., and it followed around this heavy metal band. They showed the drugs they do, and the parties they make, and how these guys are just -- they're just out there. They're ready to explode. One of the lead guitarists goes into a store; he needs a new amplifier because it's all about sound, loud sound. The louder sound you can make, the better is the music. There are no chords or harmony or whatever, right? This is heavy metal, think Black Sabbath, think Ozzy Osbourne, think AC/DC.

So he walks into the store, and note the cameras are following him, documentary style. The salesman starts talking to him about amplifiers, and power, and the quality of sound, and it's all lost on him. And the salesman goes on and on about the different vacuum tubes in this model and that one, and it's completely lost on the rocker. Finally he says, "I want that one!" The sales guy says, "Why do you want that one?" And the guitarist excitedly points to the volume knob and says, "Well, it's got an 11! All the other amps only go from 1 to 10, and this one goes from 1 to 11. It must be louder!"

So, I mean, I thought it was kind of funny. But it's a nod to what you're all saying, Jérôme and Michel. Investors miss the point frequently. They look for the amp with the '11' on the dial. They don't really understand what they are buying. They compare all alternative funds to the S&P and improperly so. Many other funds, and especially our two funds, don't have the same exposure as 1x long the S&P, don't have the same risk as 1x long the S&P, and don't generate returns in the same pattern as 1x long the S&P.

That said, when the S&P500 rips an 11% return in 2014, the investor says, *'well you underperformed the S&P', and you look inferior. On the other hand, when S&P500 is down significantly on the year or month, and you produce flat or even positive returns, the investor retorts 'oh, well, you are an alternative manager, you are supposed to not be correlated to the S&P!'* In our case we were +6% in 2008, yet only hear about how in 2014 we were only +3% vs. S&P's +11%. Its ridiculous, and you just can't win.

So to Michel's point about the correlations, you have to stick to your knitting, and you have to fight this pull towards beta regardless of what investors say. It's very seductive to follow the flow towards that which is working – as a manager and as an investor.



If you stick to your knitting you will almost certainly have periods of 'underperformance', as both a manager as an investor. As example value investing is a widely accepted driver of long term risk adjusted outperformance. Academic papers suggest that 5-7 years is the appropriate time frame to judge the returns from a value-driven approach. It's just that we make decisions on a much shorter time frame, say on a monthly or yearly basis. We all need a job right? We frequently might be out of one if we wait for the 5 year plan.

Stay true to yourself and you will have underperformance periods. Everybody underperforms. Hopefully your investors get that. Note even the great Warren Buffett underperformed. Back when Netscape ipo'd and the tech bubble was in full froth, the headlines screamed '*Has Warren Buffett Lost His Touch?*' He didn't invest in a single tech stock because he didn't understand the valuations. So for about 5 years he sorely lagged the Nasdaq and the S&P.

Rich enough, he was able to stick to his knitting. He didn't care about headlines, nor did he need any investors really. When the tech bubble imploded and Value investing came back into vogue, he was lauded as a genius. Again.

I'd like to make one comment to Jérôme, Cedric, Fabio: we all know that correlation is increasing and that its hard for a good fund-of-funds to find uncorrelated components. In fact, in your attempt to diversify you may say 'Oh I need a CTA guy, he is uncorrelated to the S&P500'. But really, because of cross-correlation to your strategy mix you are not achieving the diversification you think you are getting.

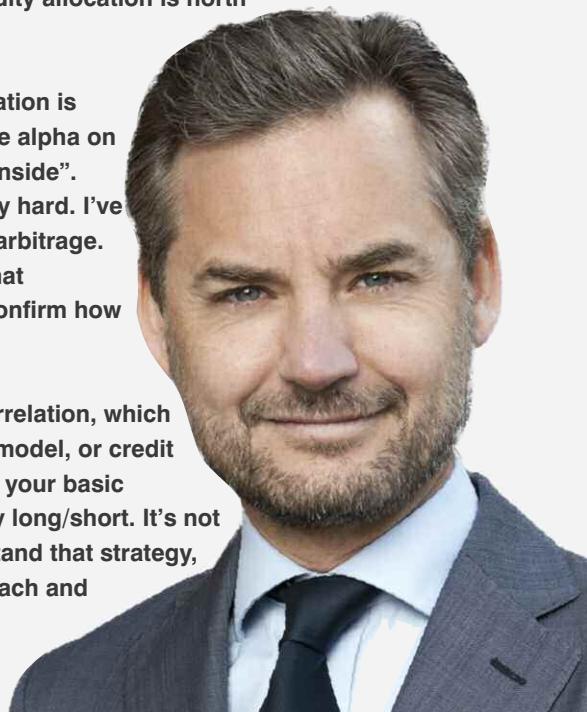
Cédric Kohler: A few comments to your point, Jérôme. I think clients are 95% of the time unhappy. It's a fact of life, you only have 5% of time when they are happy with you. But you can still survive, as we did for the last twenty years.

Just one comment about the 5% I mentioned earlier. In fact, it is the actual allocation made by pension funds in Switzerland. From a legal perspective however they can go up to 15%.

Steve, to come back to your point, we don't fight what's not possible to create. So like I mentioned at the beginning, out of the \$1.2 billion, we manage \$800 million in equity long/short portfolios. We clearly advertise that we are correlated to the equity markets. However, we tell people that they can get equity returns but with much less risk. It resonates a lot with Anglo-saxons investors because typically their equity allocation is north of 50% or something like this.

In Switzerland, it doesn't resonate as of yet because a big equity allocation is 30%. But the idea is to say, "yes, we are correlated but we can generate alpha on top of that correlation, participate on the upside and minimize the downside". Coming up with uncorrelation on the other hand is actually really, really hard. I've worked at a hedge fund in the States that almost invented convertible arbitrage. The CIO had to reinvent over his carrier at least 20 times how he did that arbitrage. We have one arbitrage here at the table. I am sure he can confirm how it is really, really hard.

So what we tell people is before you engage in trying to find that uncorrelation, which most of the time you don't get, or you swap a market risk for liquidity, model, or credit risk: try to use a simple strategy – even if correlated – which enhances your basic allocation. You can use some hedge fund strategies for that, like equity long/short. It's not for everyone, but for those people who are willing to learn and understand that strategy, for them returns improve dramatically. There is a market for this approach and some American firms dedicated to equity long/short run several billion dollars portfolios.



And just to your comment, Fabio, about the large fund of hedge fund firms becoming larger, it is indeed a fact of our industry but I am still very happy to see that awards are usually not won by these firms. So there is still room for people who have a niche and deliver performance.



Michel Dominicé: I think we have to keep a broader picture in mind, which is that we are living in a world where opportunities have capacity restrictions. If all hedge funds were to follow zero beta strategies (i.e. uncorrelated to the rest of the market), then the capacity of the hedge fund industry would be quite limited. One could not even put 5% of the world's total assets into zero correlation strategies - the capacity is simply not there.

For example, we manage a volatility arbitrage strategy, which focuses on arbitraging myopia, a behavioral bias of equity investors with regards to the risk in equity markets. We could not manage more than USD 2 billion or so, as there are capacity constraints for these types of strategies. Therefore, the hedge fund industry will always end up with a more beta strategies, as de-correlated strategies have capacity constraints.

Hasan Aslan: Tail hedging was one of the favorite themes among hedge fund investors in 2009 whereas before the crisis no one was really talking or thinking about it. The fund of hedge funds business was mostly about bottom-up manager selection. So we saw a period where more and more investors starting to invest in tail hedging programs which haven't really worked over the last five years.

We believe that, given the unprecedented low volatility environment we have gone through, it might be the right time to consider tail hedging funds again. The divergence in terms of monetary policy across the globe, the geopolitical tensions, and the political agenda in Europe will certainly bring more volatility to the market.



Jérôme Berset: Tail hedging is clearly a niche strategy. And at the end of the day, it's a difficult strategy. If you do real tail hedging, it is like being long put options, therefore you have negative carry and it is difficult to keep the position. As Michel was saying, I think you have certain strategies that are decorrelated and that you can keep through different cycles. Decorrelation is good. It's very interesting, but you still need to produce some kind of return to keep your investors.

We have been using CTAs and systematic products in diversified portfolios in order to "hedge" that tail risk. It does not always work but it is undisputed that these kind of funds have their place in anyone's portfolio. In fact, we had a dedicated product investing in systematic strategies with higher concentration towards CTAs along with some macro systematics as I defined them. But, we had to wind it down because people redeemed as performances were relatively more challenging. However, we still use those strategies actively in dedicated mandates.

Fabio Alessandrini: To be honest, our experience with our tail risk hedging wasn't good. In 2008 we had put some on, and it was disappointing. Probably we have made some mistakes in selecting the wrong managers. Our observation at that time was that the insurance is very expensive, and it is not paying a lot when the problem happens.

We also considered CTAs as some kind of tail risk. The question with CTAs is as well how much do they cost you when they are not working? We thought that historically CTAs wouldn't cost that much because even in good market environments they were returning a decent performance. However over the last two years we and probably other investors realized that CTAs can as well be costly sometimes, especially when there are no trends in the environment. It's a very difficult process to find the right tail hedge. On balance however, we still consider trend followers to be a reasonable alternative to pure tail risk hedging.



Matthias Knab

What is your approach now regarding CTAs as they bounced back and are in fact the best performing hedge fund strategy of 2014?

Fabio Alessandrini: Maybe two things on CTAs in particular. We have been researching a lot on whether we could time the CTAs and what kind of environment is good to CTAs. The first observation we made is quite obvious: you need a trending environment for trend followers to work. Now you should ask where do trends come from. Going back to the roots of asset pricing, you realize that trends are present when basic pricing variables are trending, i.e. rates and the economy. So trends in asset prices are intimately linked to trends in the business cycles and in monetary policy.

It means that when you don't have trends in a monetary policy, in the business cycles, it's difficult to have good trends in asset prices. That's what happened over the last couple of years with monetary policy being loose for much longer than what it used to be in past cycles. Therefore, you had two years in which people didn't know where to go and so asset prices were up and down without any trends. That was the first observation.

So now, the things are a bit changing. We have maybe a bit more visibility on the economic cycle, on monetary policy. But then, the other point was, should we go early in that? Then we realized, simply by looking at performance that trends are long in nature. It means that if it's indeed a trend, they last for two years, three years, or five years.

Therefore, maybe you can afford to just wait a bit and be sure that you're back in the good environment that you need for trending markets, and just maybe avoid this kind of difficult time period. Obviously, we are now questioning ourselves whether this is happening. We do see some more trends in FX and in commodity markets, in equity as well, whereas previously, we had zero out of four asset classes that were trending. Now that we have three out of four, maybe the time is coming. We believe that we're starting now to have sufficient evidence for considering allocating more to those strategies.



Steven Markovitz: I'm sorry, I think there are some weaknesses with the typical approach of allocators today. I know many fund to funds who allocate with their view of the world, like, *"we're in a trending environment and rates will stay low or rates are going to go higher, so we will choose managers who will do well in this environment,"* or, *"now we're in a dollar bull environment and we should tilt the portfolio this way."* However the truth is that the managers themselves don't know what kind of environment it's going to be, the managers themselves don't know if they will have a good year or good month.

So, many allocators feel like it's their job to choose and tilt the portfolio towards those managers they think will do well in the macroeconomic cycle as they understand it. But trends last longer than you think, surprises happen, and risks don't materialize until overnight, all of a sudden, they happen. It's impossible, in my opinion, trying to time the market that way. It's an impossible task, and therefore investors trying to do that are actually dooming their portfolios to their own weaknesses, the weakness of this approach. So from that perspective, I believe Cédric has a unique solution. Sleep with the devil and say, "This is who we are and go with the best of breed."

Now, we are not a fund of funds, but we are a single manager with five different trading strategies. We have to stay out of that trap as well. It is tempting to say, 'This is the year for our Asian ETF arbitrage so let's put more capital into that'. Truth is we don't know what will work so we allocate roughly equally on a risk basis, and stay that way unless something really changes otherwise.

Regarding capacity I agree with Michel's point about capacity limitations. There is not a lot of money the uncorrelated managers, or true arbitrageurs can handle. In our case we can't manage more than one and a half billion USD. We have small niches of opportunity that we try to exploit.

I believe the approach of allocators should be to go with the best of breed and hope for the best, because you simply don't know which strategies the markets will favor. It was supposed to be a good time in CTA-land years ago, and they have sorely disappointed for last few years. Once everyone has redeemed from them, lo and behold, 2014 was again a good year. Ouch.



Matthias Knab Are there any final remarks or questions?



Michel Dominicé: I would like to add a thought to our earlier discussion about FINMA and Swiss authorities' strategy with regards to the regulation. I think the current strategy, to fully integrate European regulation in order to get market access, is not reasonable. We go through painful bureaucratic process and in the end we still cannot obtain market access.

I think a good strategy would be a two-speed system. One system for the retail investors, where we would copy/paste the European regulation to obtain market access in various countries, such as Germany.

Another would be a liberal system exclusively for qualified investors, destined for global high net worth individuals, who do not require FINMA regulatory protection. High net worth individuals, institutions or qualified investors that do not ask for the regulatory protection, should not fall within the regulatory limits.

I think this system would permit to have the best of both worlds. In my opinion this strategy can be applied not only to FINMA, but also the Swiss government. We often criticize FINMA, but I think the problem is also in the Swiss state administration.

Ian Hamilton: You wouldn't think that coming from the southern tip of Africa, we have that all in place. What you are wanting has taken us 13 years to negotiate and we will have it announced by the Minister of Finance later in 2015. We will have a UCITS type structure for the retail market, and a Qualified Investor Fund structure. The QIF is actually not for high-net-worth individuals, but more for the pension funds who want the more flexible investment structures.

We have huge tax battles because we have certain lobbyists that actually felt that the qualified investor funds should be taxed in terms of the trading in the portfolio. We manage to beat that because we pointed out that if a fund manager wants to start a fund, he's going to use his own money and he's going to have a few high-net-worth individuals. Once he's got his track record, then he will move into the institutional market.

Institutions are not going to fund startups, and the institutions do not want to go into the UCITS structures. Here in Europe and especially the E.U., you have the UCITS structure, you have AIFMD and you also got qualified and professional investment funds which do not fall under AIFMD. However, there is a danger if you set up a qualified investor fund in one of the E.U. jurisdictions. Brussels is not going to allow them to continue with not being AIFMD compliant. They want total control with all funds under AIFMD in the next two or three years.



Michel Dominicé: Europe is not the only place that we can target from Switzerland. Middle-East, South America and even Asia are developing at a fast pace, while Europe is not really growing.

We can also market within Switzerland. Wealthy Europeans who moved out of Europe want to maintain their freedom to invest where they want, not just in the costly UCITS products.

Therefore I believe that registering Swiss funds for qualified investors should be done very rapidly. It would allow for more investment flexibility for end clients. Then, if the fund is successful, one should have an option to switch it into a retail product. That approach would be really helpful for the industry.

Instead, smaller managers in Switzerland are now skipping FINMA registration and going straight to the Cayman Islands, where they can easily launch a fund. However if one day they would want to offer it to retail investors, it would be extremely difficult to move it back to Switzerland.



In my opinion, the correct, and even easier approach is for FINMA to approve the existing funds for retail distribution. In that case the company would already have an investment team, a track record and a proven investment strategy.

Ian Hamilton

What I see actually here in Switzerland is the rise of the managed account rather than setting up funds. That is also a way to establish a track record in going forward. That is also what we heard from the Zurich Roundtable we just had – a huge demand for managed accounts, nobody actually wants to talk about funds.

Cédric Kohler

I have a question for you. How many of you know about the Swiss Asset Management Initiative? And who is heading it?

Fabio Alessandrini

I have heard about it.

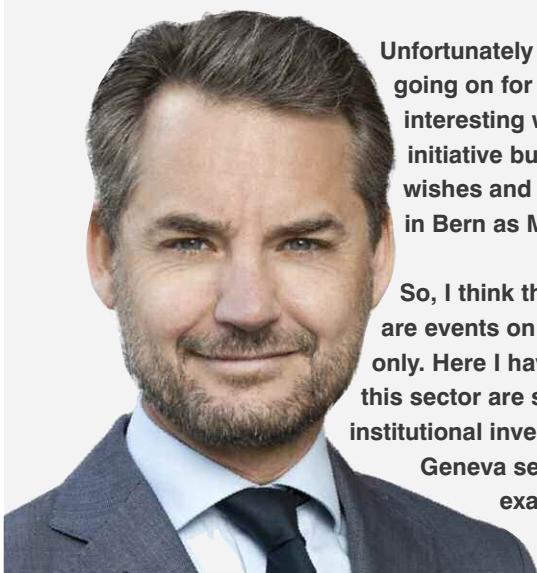
Cédric Kohler

See, that is interesting, there is just one person out of the whole group here who knows about it.

Fabio Alessandrini

The reason why I've heard about the Swiss Asset Management Initiative is because of my involvement in teaching asset management at university where we have discussed the paper in class. I actually found it amazing how little the students today know about asset management. They don't know what it is in general and they don't know the Swiss industry in particular. They know about private banking, but finance and asset management is a much broader sector, and they know extremely a little about that.

Cédric Kohler: Indeed and hence this initiative. The Swiss Asset Management Initiative is driven by the Swiss Banking Association. They have realized that the Swiss banking secrecy has been lost but that there are still good asset managers in this country. It's about making a new brand around that. You can actually find the white paper here: www.fundana.ch under News and Top 5 articles.



Unfortunately however, as you could see here, while this is something that has been going on for a two years, it is not yet known to many Swiss. There might be something interesting with this initiative however. Granted, it should not be just a banking initiative but a wider one. We all have to participate to this initiative and voice our wishes and ideas as independent asset managers. This will also enable us to be heard in Bern as Michel explained.

So, I think this is one way that we can all contribute. We can also contribute when there are events on alternatives here in Geneva or even those that are mostly related to long only. Here I have in mind new styles like SRI (or ESG in French). While the allocations to this sector are still relatively small, there is a good momentum and we now have many institutional investors sponsoring these approaches. We even have think tanks based in Geneva setting worldwide standards such as the Swiss Sustainable Finance for example.

Matthias Knab

Not too long ago, Switzerland was actually one of the major global investment and trading hubs. That has changed and diminished over time, and I hope there is a way for the country to regain some ground here. Let me point, like Ian before, to our 2015 Zurich Roundtable where the participants also discussed some comforting signals that this is happening right now in Switzerland.

Fabio, I know you and your firm have done a tremendous amount of work regarding alternative risk premia. Could you please share with us more about your work there?

Fabio Alessandrini: Correct, one area we are working a lot and where we see tremendous growth potential is the field of alternative risk premia. Whereas the concept is not really new, it has gained a lot of traction recently for various reasons. The first interesting point on this topic is that it has strong theoretical roots, going back to Fama and French research that was further developed by many other academics. By integrating alternative risk premia, people are now able to understand a variety of investment approaches using a single framework, going from smart beta to hedge fund investing.



Then from a practical standpoint, alternative risk premia has the advantage of being a fully flexible approach which can be adapted to very different needs for the clients. It can go from optimizing the passive exposure on some markets to offering interesting alternatives to both equity risk and hedge funds. Moreover, it also corresponds to the most pressing needs of reducing fees, since it provides systematic exposure to risk premia in a much lower fee format than it can be reached for instance through a portfolio of hedge funds. Finally, it looks like the alternative risk premia concept might allow investors to reach the real diversification they are looking for and that has vanished since the 2008 credit crisis.

However, the trend is still in early development and there are a number of points on which the investor must be very careful. Those relate basically to efficiency and robustness. On the last point, the question is about the out-of-sample performance.

Diversification seems to be very robust across risk premia, especially in a crisis such as 2008. Nevertheless, you need to be very careful about the characteristics of each premia in order for those diversification properties to be maintained over time in a portfolio. The other challenge is about consistency in the offering and efficiency in reaching those premia. We have seen a lot of divergence among the strategies offered by investment banks. We feel that there is ample room for asset managers to position themselves about efficient selection and portfolio construction of risk premia, so that the final client can really have the optimal solution according to its needs.

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