



Opalesque Roundtable Series '15 TEXAS

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Editor's Note

100 new hedge funds set up in 2014 in Texas alone, but history shows only 1 out of 10 managers will get over \$100m assets

Bryan Johnson has worked for 27 years in the alternative investment business, first as a portfolio manager for two family offices and then as founder of a family office consultancy where he worked with about 63 families investing \$3 billion in private equity and hedge funds. Since 2010 he helped over 300 smaller fund managers with the holistic challenge of formulating and implementing appropriate marketing processes.

According to Johnson, having looked at almost 18,000 managers over a 15-year period, **"89% of all managers never get over a \$100m assets. Those that do get over a hundred million generally take about 16 months to do so on average. If you go to the further end of the spectrum, those who get over a billion, only 3.7% of all managers do, and it takes on the average of 55 to 57 months to do that. But the primary reason why most managers do not get over the hundred million hurdle, it's not because of poor performance, it's because of marketing."**

Not everyone is ready for Johnson's tough coaching: **"In about 25% of the meetings I have with small managers, I end up talking them out of starting a fund. I'm just candid and tell them, 'I'm saving you from yourself at this point because you're not prepared to do this right. I understand you want to start a fund, but you're not prepared to, whether financially, mentally or emotionally to do this because it is a holistic commitment, and if you don't understand that, it will bring havoc in your personal life.'"**

So what's good marketing?

You need to have a **"clear, consistent, concise, compelling, regulatory compliant process articulation, and you have to tell a story that's believable, number one; verifiable, number two; and sustainable, number three. And if you don't do those three things, you will not raise money in this environment."**

Still, most of the smaller managers come to the fund-raising and marketing challenge with the wrong orientation. The vast majority starts out with **"all I have to do is put up numbers and the world is going to be the path to my door."** But that's not true any more after the credit crisis. Further, marketing is more than just gathering assets but also includes asset retention, so really the acquisition, expansion, retention and stability of a manager's AUM all falls in the marketing bucket.

Which clients should you go after?

Johnson believes that **"most managers don't even understand the opportunity set on the buy-side that's right underneath their feet - what I generally refer to as a geographical and relational footprint. For managers based here in Texas, we believe it is important that they really understand that in this state alone we have between 9,300 and 9,500 individuals and families with minimum net worth of \$50 million. And their number is growing at a compounded annual rate of 16%."**

Do you have a **process to identify and engage with such a group?** Sure, they are harder to identify, which is why most smaller managers prefer to **"chase institutional unicorns"**, even though they often have an intuition that what they are trying to achieve with institutions won't work out, at least while they are still small. Consultants control about 90% of institutional assets, and contrary to most high-net-worth individuals and single family offices, they are generally risk averse.

The Opalesque 2015 Texas Roundtable was sponsored by the London Metal Exchange and took place in March 2015 at the office of Akin Gump with:

1. Adam Rodman, [Segra Capital](#)
2. Brett Robertson, [Robertson Opportunity Capital](#)
3. Bryan K. Johnson, [Johnson & Company](#)
4. Burke McDavid, [Akin Gump](#)
5. Edward Ondarza, [Virage Capital Management](#)
6. Paul MacGregor, [London Metal Exchange \(LME\)](#)

The group also discussed:

- How family offices select their investments
- How smaller managers can best engage with and talk to family offices and high net-worth investors
- How to make money with Duopolies, Special Situations and Turnarounds
- Can you run a global emerging markets-focused fund from Texas?

- *"Solitude makes for a great environment for thoughtful analysis and contemplation."*
- How fund managers can save 25% in operational costs
- "What gets measured gets fixed":
- The fund that runs a detailed investment logbook for each position with "Lessons Learned"
- Friendly economic environment: Did you know that over 100 new funds were launched 2014 in Texas alone? Those include long/short hedge funds, but also credit, direct lending, energy-focused high yield debt and credit funds
- What is the best way for emerging managers to get "well-enough organized", have a real culture of compliance and the appropriate marketing procedures?
- When should a fund manager employ a dedicated marketing person?
- The vital difference between service providers and service partners
- Why the U.S. has fewer "platform solutions" than Europe
- The Come-Back of Volatility: Opportunities in Global Macro may outshine US strategies soon
- Why the buy-side – CTAs, macro funds, systematic traders – should take a close look at new products launched by the London Metal Exchange (LME), now owned by the Hong Kong Exchange Group

Enjoy!

Matthias Knab
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Participant Profiles



(LEFT TO RIGHT)

Burke McDavid, Edward Ondarza, Bryan Johnson, Emily Rash (LME), Paul MacGregor, Adam Rodman, Brett Robertson, Matthias Knab.

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Introduction

Paul MacGregor

London Metal Exchange (LME)

My name is Paul MacGregor. I am Head of Sales at the London Metal Exchange (LME). The LME is a member of HKEx Group and is the world centre for industrial metals trading. More than 80% of global non-ferrous metals business is conducted on our trading platforms. In 2014, 177 million lots were traded on the LME, the equivalent of 4 billion tonnes and \$14.9 trillion in notional value.

I've been at the LME since October 2014. Prior to joining the LME, I worked for two years at a technology company called FFastFill, which provided cloud-based trading, matching and clearing services. Before that I was at the LIFFE Exchange for 15 years, where I ran the technology team that rolled out the floor-to-screen migration and also the interest rates team. There, of course, I gained deep exchange experience. And then before LIFFE – I must mention it because we are in Texas – I spent three years at BP.

Brett Robertson

Robertson Opportunity Capital

My name is Brett Robertson, President of Robertson Opportunity Capital, an investment advisor based here in Dallas. We manage a master feeder fund, the Robertson Opportunity Fund and Robertson Opportunity Master. We developed the fund's strategy with my most senior analyst back in the early '90s when we took a clean sheet approach to what we thought was the best way to manage money. Our seed capital came from the Mary Kay family and other Texas-based family offices. We implemented our approach not knowing if the investment results would follow. Looking back we have been thrilled with the wealth compounding that has more than validated that vision, allowing us to put our strategy into practice and generating excellent tax efficient returns over the last 20 years.

Bryan Johnson

Johnson & Company

My name is Bryan Johnson. I founded Johnson & Company which is a marketing consultancy for sub-institutional hedge funds and alternative asset managers. We work with any fund from the idea stage to about \$150 million asset size and help them with the holistic challenge of putting in the appropriate marketing processes, so they can execute a professional and methodical approach to raise assets.

I have been in the alternative investment business for close to 27 years. I worked as a PM inside of two family offices. I also founded and ran for 12 years a family office consultancy where we worked with about 63 families where I put about \$3 billion in private equity and hedge funds.

I initially came to Texas as chief expert witness and lead consultant for The Attorney General of Texas and The State of Texas in the evaluation of hedge funds and private equity firms in the acquisition of the assets of Texas Genco in the multi-billion dollar true-up of Centerpoint Energy (CNP:NYSE). That went on for quite some time, so I was there from about late 2001 to 2006. Then I became global head of the alternative investment group at Moody's where we deployed an operational risk product.

At that unit I was employee number three, also acting as global head of sales and marketing and business development where I brought on board some household name funds that you might be familiar with, names like SAC, King Street, Millennium, Fortress here in the States or Marshall Wace and Brevan Howard from the UK.

In 2010, I decided that I didn't want to live in New York and since I love Texas I decided to move back to Austin and opened Johnson & Company. Since 2010, we worked with in excess of about 300 sub-institutional funds and helping them with marketing and fund raising.

Edward Ondarza
Virage Capital Management

I'm Edward Ondarza the Founder and Portfolio Manager of Virage Capital Management. We launched a unique strategy in September 2013 focused on direct lending to fund litigation expenses that provides an uncorrelated, low vol return to investors. The idea was born from the need of attorneys to access the capital markets following the banking crisis in 2008-09 and the resulting banking regulations that restricted capital to both private and commercial borrowers that historically relied on access to credit through traditional banking relationships. Virage is based in Houston, Texas and we are currently a team of six and growing.

Adam Rodman
Segra Capital Management

My name is Adam Rodman. I'm the Founder and Managing Partner of Segra Capital Management which is a globally focused long/short investment manager based here in Dallas.

Prior to founding Segra, I was a partner at Corriente Advisors, a Fort Worth-based investment manager founded by Mark Hart. Mark hired me in my first hedge fund role out of investment banking in New York City. I have been in Texas since then.

Burke McDavid
Akin Gump Strauss Hauer &
Feld LLP

I'm Burke McDavid. I'm a partner in the investment management practice of Akin Gump Strauss Hauer & Feld LLP, a global full service law firm. We assist investment management clients with structuring funds and their management companies, preparing offering documents to raise capital, legal and regulatory compliance and other related matters.

70

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



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Matthias Knab

Brett, your introduction made me curious. You mentioned some 20 years ago you and your senior staff developed what you think or thought was the best strategy on how to run money. Could you please share with us more details about that strategy, and also how have you been doing since then? Also the other managers please feel free to add details about your respective strategies.

Brett Robertson: We run a long/short strategy with a twist, and the twist is that we move into credit on a cyclical basis. We are at our core analysts of businesses looking first to enterprise value and then later delving into the best investing tranche for our partners, whether it be long equity, junior or senior debt or even flipping over to short equity if we believe the capital structure can only support marginal equity value.

My most senior analyst and I began on the credit side when we met in Chicago working for the same institution in the late 1980's and consequently are comfortable looking throughout the capital structure for the best risk/reward opportunities. We begin with a three-pronged approach on the long side focusing on Duopolies, Special Situations and Turnarounds. These are fundamental patterns where we have demonstrated success with our research efforts in not only identifying but also an ability to trade them successfully. We generally are not interested in experimenting with our capital but prefer to follow a repeatable discipline that the entire team can embrace and which provides consistency over time.

Essentially, we are looking for duopolies on the long side which effectively control or significantly influence their respective industries, special situations which may include spin-offs, recaps, hidden asset values and then thirdly, we look at turnarounds. Arising out of the turnaround space where we're uncomfortable with the equity in its current form either due to structural reasons or less than premier business quality, we may move up into the cap structure to improve our position or as a way to back into the equity after a reorganization.

So these can be pre-bankruptcy situations, mid bankruptcy or post-bankruptcy, offering exchanged debt or stub equity pieces. It can be anywhere along that timeline. Oftentimes, we like to be a little late as these processes tend to drag on, believing we can benefit from investor fatigue. On the short side, we're looking for eight fundamental rather than technical patterns that we deploy in a methodical fashion.

Basically, from an exposure and positioning level, we let each of our prospective investments fight amongst themselves for inclusion into our portfolio and what results is our net exposure. This is in contrast to divining a top-down net exposure for the book based upon a macro view.

So we believe that allowing our positions to drive exposures keeps us in the best opportunities and improves timing. Sometimes as we lean into greater weightings of the most attractive opportunities, performance can suffer in the short run, but when the market changes, as it always does, we tend to see a rubber band effect on performance toward our positioning.



Adam Rodman: At Segra Capital Management we run a long/short strategy with a cross-asset mandate. We are Texas-based, but run very little of our exposure in anything Texas-related or even U.S.-related. We are a global fund with a focus on the emerging markets. Many people ask us why we are not in London or Geneva or maybe Singapore or Hong Kong running this strategy. There are a lot of reasons for that, not the least of which is that we like to be out of the general group-think.

Texas as a whole is quite independent. We find that being outside of the noise, particularly as it relates to the way we discover and develop investment themes, has been very helpful to our process.

Strategy-wise we are a bit of a unique animal. We take a macro, top-down approach to finding investment themes and apply to it a fundamental research process. I appreciate there are a lot of buzz words in that sentence, but practically speaking, we are looking for the larger structural policy-, industry-, macro and/or economically driven opportunities, and then we look as to how they might affect individual securities or groups of securities.

For example, if the European Central Bank is embarking on a new path of monetary policy, with perhaps a traditional top-down focus you might then express what you think is going to happen by trading the Euro or perhaps a general European equity index, or maybe you would be buying peripheral EMU sovereign debt. Given this view of the ECB, Segra Capital would strive to peel back a few layers of the onion, so to speak, trying to find more fundamental opportunities that perhaps have disproportionate upside to that particular macro event. And we try and create, I guess for lack of a better way of putting it, a “best ideas” portfolio of long and short opportunities driven by the divergences and what we see as those catalysts.

Generally speaking, we like the more under-followed markets that might get the benefit of a domino effect from those larger macro events we all read in the newspaper or that we get in our general research inboxes, but are less crowded (and therefore usually offer more upside). In terms of the ECB policy changes I referred to, and I can go into as little or as much detail as you think is warranted here, we know that there is general deflationary pressure in the Eurozone as a whole. To combat this, the ECB is embarking on a path of extraordinary monetary policy - not only cutting interest rates to negative territory but also initiating on their own version of asset purchases.

So the task then becomes to best exploit this structural shift in policy. We have historical analogs to reference. We can also analyze exact mechanism by which they plan to effect their policy objective. The most important takeaway from these is that we expect there to be strong yield compression in European assets (and we've already seen dramatic compression in certain parts of the capital markets). But how much of an investment return can we get in an Italian sovereign bond that is yielding maybe a hundred basis points over Germany? Not much.

By going a few layers deeper, we see better opportunities to benefit from the same macro event. There is actually quite a bit of economic divergence in the European monetary union, different degrees of recovery. So for example, and maybe most importantly, in 2010 and 2011, one EMU member really deleveraged. That was Ireland, and virtually Ireland exclusively. The country had a full banking crisis, a big property drawdown of 85%, and consequently went through what I would consider a true economic “reset.” That deleveraging event was necessary for the Irish recovery, and still probably needs to happen in most of Europe to see sustained improvement.

And if you fast forward to today, what that means is that Ireland is on the road to negative real interest rates, which will get more negative as ECB policy kicks-in. At the same time they have positive growth trends, positive employment trends, strong industrial production, GDP, PMIs - anything that you can track on the macro level. Yet, they're going to be anchored to general EMU monetary policy. That's a macro backdrop that makes us want to find assets to buy in Ireland.

Early in the Irish recovery, there were a few difficult-to-access ways to play the Irish recovery, mainly in the form of buying distressed bonds from NAMA, or directly purchasing property. But I think the next wave of the opportunity is best expressed through what is still a nascent REIT market - Real Estate Investment Trust. This industry was only approved in 2013, and is largely overlooked by international investors.

Again, I laid out the macro, maybe most important of which is that I believe Ireland's rates will become far more negative on a real basis than anywhere in Europe which means they will be searching for yield to a greater extent than anywhere on the continent. At the same time, I think you have the propensity for a real supply squeeze in the domestic market. Not a square foot of commercial real estate has been



built since 2009/2010. Since that time, Dublin has become the European headquarters for countless multinational companies to benefit from the tax advantage.

So in Dublin, the prime-A vacancy rate is officially somewhere around two-and-a half percent or so. I have personally surveyed most of these “vacant prime-A” offices and in terms of what a professional office could really move into... I think it’s more equivalent to sub one percent.

Population trends and FDI trends are such that the market is already squeezing – demand for space is incredibly strong. We have had two years of 20% plus rental growth and I think we probably get 25% or 30% again this year... even more if the ECB gets more aggressive than planned.

So I went through a lot there, but the key is that our play on the ECB policy is finding a bespoke, nuanced fundamental expression of the big picture. We look for investment opportunities that are strong on their own fundamental merit catalyzed and supported by macro tailwinds.

Matthias Knab

What is your average holding period for those themes?

Adam Rodman

We generally target opportunities that we can hold for at least a quarter or two. We’d love to be able to hold our best ideas for several years, dependent on whether or not the macro and the micro continue to line-up.

Matthias Knab

Edward, you run a unique niche strategy. Could you please tell us more about the opportunity?

Edward Ondarza: The origin of the business sounds like the beginning of a bad joke: A commodity trader and an attorney walk into a bar... In 2011 the aforementioned commodity trader and attorney got together to catch up and the attorney was complaining that his bank was reducing the credit facilities that he used to manage case related expenses which was limiting the volume and quality of the cases he could pursue. The banking crisis in 08 and 09 resulted in banking regulation that has severely restricted credit to commercial and consumer borrowers; that created the investment opportunity for Virage.

In the US, plaintiff attorneys typically take cases on a contingent basis where they front all expenses related to the case for 40% of the total and recovery and expenses in the event of a financial recovery by either settlement or verdict. Without the capital to front the expenses related to a case, a plaintiff attorney can’t manage, let alone grow, their practice. These two individuals conceived an online platform that would allow preeminent attorneys the opportunity to post their cases on a platform and request capital to support the expenses related to their case or docket of cases. Although I wasn’t at that session, the commodity trader reached out to me to help them develop the idea, which resulted in Virage being formed to manage capital of investors to provide capital to the attorneys posting their cases on the platform.

Prior to Virage, I had been involved in launching a number of startup businesses including the pulp and paper derivative market, which was a business we sold to Enron. At Enron, in addition to building the core financial derivative market we also began trading the underlying physical products of pulp and paper, acquired and operated assets and developed an online platform to trade our financial derivatives and physical product.



Post Enron I setup and was President of National Bank of Canada's commodity trading group and founder and COO of a couple of management firms running commodity funds. Due to this startup experience and launching an online platform, I was asked to participate in the development of the opportunity.

As the opportunity was discussed and I realized the return generated from the investments or loans would provide an uncorrelated return to investors that would not be associated with any global financial asset class and insulated from global events that could roil financial markets, I thought it would be a terrific product for global institutional investors always searching for such characteristics. As the return from the strategy is based on the outcome of a legal event and not associated with any financial instrument, I believed this would provide a return that would be compelling to institutional investors searching for non correlated investment strategies.

The initial product that Virage invested in through the platform was a debt instrument or note that we entered into with a borrowing law firm and attorney with the capital being used to support third party expenses related to a contingent plaintiff case. The return is generated from the interest rate we charge on the notes which has ranged from 18-24% to date across our portfolio.

If the borrowing attorney has a recovery event, the attorney pays back the principal and accrued interest to date; if they lose the case which has to be supported by court documentation, they are not required to pay back the note. We approach the analysis of the attorney and underlying case much like they did in the movie Moneyball analyzing the baseball team they put together. We essentially invest or lend to attorneys that consistently get on base, we don't care if that is a result of hitting a home run or being hit by a pitch, as long as they get on base that means there was a recovery event and as expenses are paid first, we are repaid the principal and accrued interest. In contingent cases, the repayment of expenses, which is the basis of our notes, are repaid before distribution to the plaintiff or attorney for their fees. Thus far in the initial 18 months we have not had any losses due to an attorney losing a case.

The initial product has developed into multiple products or loans that we are making. The vast majority of our portfolio consists of investments or loans we have made to attorneys that are involved in mass tort multi-plaintiff litigation such as the BP oil spill, asbestos or abdominal mesh for females. For these investments, which are larger in the amount invested compared to the first product I mentioned, we only invest after liability has been established in the court system and the defendant in the case has negotiated and agreed to a financial settlement for the plaintiffs. We compare this part of our portfolio to factoring, as the outcome is already known it is more of a question related to timing.

The opportunities we have in this space continue to develop and grow and has been more of a structured finance business than transactional as I initially expected which I like because it provides Virage the opportunity to enhance our position with the underlying collateral to the note as needed based on the situation. The smaller investments are still more transactional and the volume of the opportunities we see is increasing.

Virage has a strategic relationship with JP Morgan Alternative Asset Management and we currently manage approximately \$260mm of institutional capital, including US and foreign pension funds, fund of funds, a sovereign wealth fund and family offices. We are in discussions now with state pensions, endowments, sovereign wealth funds, insurance companies and family offices for investment in 2015. We are in the process of negotiating term sheets with a couple of banks right now to add leverage to our equity to improve the return to investors.

Matthias Knab

How much leverage would you add?

Edward Ondarza

We are planning to add about 30 to 50 cents for every dollar of equity in the fund. We are not really leveraging the fund that aggressively but enough to enhance the return to increase the attractiveness of the strategy.

Brett Robertson: Yes, some of the guys in the office didn't want me to get too specific with regard to individual securities as we are quite guarded with our research. However, I will say that we attempt to position the portfolio in such a way to keep our partners comfortable enough to ride through any market no matter how volatile. The portfolio acts as a shock absorber to counter balance some of the downside volatility without stripping out the return octane that delivers a long-term equity substitute to long only portfolios. One of the biggest differences to achieving long-term returns that you see posted by the broader market and what actually happens in practice is simply that investors typically only have the staying power of about three to three-and-a-half years on average when they invest in mutual funds and it may even be less for hedge funds. Presumably this jumpiness tends to lead to unusually poor timing of jumping in after good performance and redeeming after poor performance so long-term returns are doubly punished.

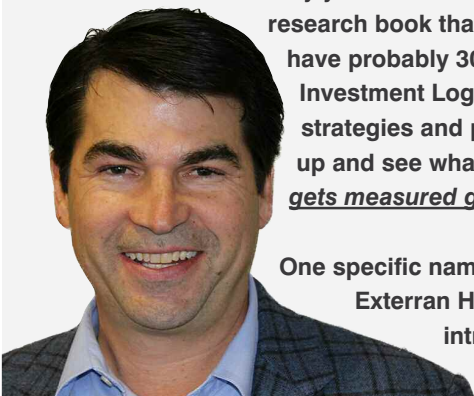
So we learned early on, we've got to keep people comfortable with a host of variables not the least of which is our business. Can the firm survive through different environments? That's one of those big hidden risks of the investment manager business. Failure rate is very high, much like restaurants. Secondly, our investors have to be very comfortable with the process. Is it repeatable? Are your successes in the early days able to be replicated into the future? So I think that it is very important that we communicate that the process and the discipline is consistent and that the firm continues to learn and evolve. Most of all, can the firm be counted on in the future so that people can ride through an uncertain future. Then can you demonstrate that you can generate returns in different periods, different cycles?

Not only do the returns have to be good but they have to be repeatable. One of the things we noticed as we analyzed our own returns was that back in the '90s when equities benefited from a strong broad market tailwind, we generated a significant return over our benchmarks. But that in and of itself wasn't that interesting due to the number of fully invested funds and even levered funds. In fact, that time period was difficult for many funds and especially alternative ones to stand out. However, during the next decade of the 2000s, you had much different market dynamics, two bear markets, and the constant transitioning into and out of those bull and bear markets. Yet, we maintained that same outperformance consistency or perhaps even a bit better.

So I think the investment process for us is tantamount. We're basically a fundamental research shop all the way through. We do all of our own work. The brokers don't call very much leaving us with only the sound of crickets in the office. The solitude makes for a great environment for thoughtful analysis and contemplation. As our research discipline is so critical, one thing I really wanted to stress was what a world class team we have and how long we have worked side by side improving each other's skill sets, timing, and identification of our firm's fundamental patterns. While our youngest analyst is just getting started having only been with us for two years, the others span nine, eleven, fifteen and I of course over twenty.

So we wanted to make sure that all of us analysts and especially the newer ones could benefit from the learning and lessons of investing that the shop has collectively experienced to improve consistency and avoid mistakes we made in the early years. We take great pains to develop a fundamental thesis which generally results in a research book that ultimately goes onto our shelves throughout our offices here in Dallas. We have probably 300 books on the shelf; but most importantly, we track those positions in our Investment Log which includes "Lessons Learned", and this allows us to pull apart the sub-strategies and patterns to make sure that we are learning the lessons so that anyone can pick up and see what we do well, what we don't do well and thereby improve that process. "What gets measured gets fixed". It is transparency and discipline that permeates the organization.

One specific name I will talk about is one we've owned off and on for many years and that's Exterran Holdings, it's in the energy compression business and we became recently intrigued not necessarily because it is the largest player in the industry nor because West Texas Intermediate has fallen nearly 60% from the end of June.



It was rather that its own price decline seemed to be in sympathy with other energy producers despite its operations being much less cyclical. Compression, as many of you know, is based on production and transmission, and so it doesn't have quite the wiggles that you see at the wellhead. Its products serve gathering systems and pipelines and frequently require more horsepower as producing fields age and their pressure declines. In fact, many energy analysts argue that production is difficult to stop once the wells have been drilled and completed in the short run and doing so can even damage the wells. Consequently these analysts believe U.S. production may actually increase this year.

So that makes for a decent backdrop but there was a recent company announcement that it is going to spin off its international operations as well as its fabrication business (which tends to be a more cyclical business). You're getting back to the gem of the business without the cyclical business. What was before a fairly complex holding company structure with an associated MLP ownership where management is dropping down assets becomes less complicated and easier for investors to value. Once the spin-off occurs, the holding company which had traditionally been leveraged becomes unleveraged. So you take out any bankruptcy risk and now can highlight the earning power that comes from higher general partner incentive shares now that MLP dividends are above thresholds. Consequently, the quality of the earnings should improve in investor's minds.

And so this transformative situation we think warrants another look and is coming back in a very event-like fashion. The spin-off should occur maybe late in the second quarter. It is the type of situation where we like to really dig in and we believe we have a 70 cent dollar despite what's happening in the macro environment. These types of positions are exciting to us and can allow us to carry large conviction-type positions.

Matthias Knab

It's interesting to hear from Brett about his focus on procedures to make sure his organization is really a learning organization, also by becoming aware and logging the good things and the errors.

Bryan, in your introduction you said you work with 300 emerging managers, what do you see on the emerging or smaller managers' side? What types of strategies are being set up? What are some of the most common mistakes you see them doing? And those who succeed, what do they do right?

Bryan Johnson: I sit at different vantage point because I am really positioned in the middle between managers and investors. Now, particularly from the universe I referred to as sub-institutional managers, I think we have got some significant problems in that space.

When I started the firm, I wanted to be very quantitatively-driven from a marketing perspective. So we do a lot of research, a lot of surveying around marketing and fund-raising. So I'm just going to run through a couple of numbers that I think maybe some of you may already know but you may find pretty sobering.

89% of all managers never get over a \$100m assets, and that's a look at almost 18,000 managers over probably a 15-year period.

Those that do get over a hundred million, generally take about 16 months to do so on average. If you go to the further end of the spectrum, those who get over a billion, only 3.7% of all managers do and it takes on the average of 55 to 57 months to do that.

But the primary reason why most managers do not get over the hundred million hurdle, it's not because of poor performance, it's because of marketing.



It was interesting just to hear Brett share with us some insight into his process because that is the critical component in order to raise money.

What I tell managers and what I focus them on is that you have to understand the context in the environment that we are in. I see it as a bifurcated climate, and it's bifurcated in the following way.

There's BC which I call *before the credit crisis* and then there's AD which is *after the death of everything*, principally trust. And in BC, raising money was categorically different; and in AD, it is categorically different and a lot of the emerging managers have not warmed up to what it takes in AD.

In an AD, it's about having and following a clear, consistent, concise, compelling, regulatory compliant process articulation, and you have to tell a story that's believable, number one; verifiable, number two; and sustainable, number three.

And if you don't do those three things, you will not raise money in this environment. Most of the smaller managers come to the whole fund-raising and marketing challenge with the wrong orientation. They all start out, I shouldn't say all, but the vast majority start out with *"All I have to do is put up numbers and the world is going to be the path to my door."* Well perhaps in BC, that was true; but in AD, that's not true.

The second biggest mistake that they make is they do what I refer to as chase institutional unicorns. *"Because I've got 20 or 30 or 40 million and it's all about performance in my mind, I'm going to approach consultants and institutions and they're going to look at my numbers and fall in love with me and I'm going to get \$50 - \$100 million tickets and I'll be 500 million before you can shake a stick."* That doesn't happen.

When you make those two mistakes, you don't instill a process because one of the things that's really evident in AD is that due diligence has expanded strategically. They're looking at more things. It's expanded tactically. There are more people involved in the discussion, in the analysis, and that leads to temporal expansion, it takes more time.

I remember back in BC, I can meet someone and then probably four, six weeks later I can get \$15 to \$20 million. Well that's not happening now and because you've got this expanded and protracted runway if you will, you've got to have a process to nurture that investor or that relationship through that long elongated process.

And if the only thing that you're doing is sending performance numbers, that is not a clear, consistent, concise, compelling process articulation because the other thing that's happened over the past years as well is that now there are more people who are better informed on the buy-side of the equation. And you can assume that now they know what they didn't know before, so it makes the process more rigorous. They can distinguish the real from the unreal and therefore you need to be able to consistently articulate the real from the unreal in your process which is one of the things that's really refreshing to hear about the knowledge base that Brett and his team is building, because obviously that will promote sustainability, consistency and continuity in your process which ultimately reflects in consistency and continuity in your returns. But most small fund managers aren't like that. They don't have that orientation.

So in my opinion, we are really running into a significant problem in this industry. While assets are growing, the industry isn't growing because we are reaching the point that larger funds are achieving these economies of scale but then a number of them exit following the notion that *"I don't want the headache of managing other people's money,"* so as a consequence the talent pool isn't increasing sufficiently. I believe this is a significant problem. One of the things that we're focusing on is educating those younger managers or emerging managers as to what it really takes to expand the talent pool because it's incumbent upon them if they really want outside assets. We work with them how to do that appropriately, what is it going to take and help them have a clear understanding of that challenge.

Matthias asked about the strategies we are seeing, and also today we notice the predominance of equity long/short strategy. But let me also add that given the environment we are in now and the proliferation of credit, we are also seeing more people who are getting into the credit space, particularly in opportunistic credit. Because of the regulatory changes, certain areas of credit like private debt really start to take off.

Big banks have pulled back from small business lending, and private markets step into that. So also going forward I think private debt is an area where you're getting a lot more attraction for funds and a lot more managers are focusing on what I would refer to as opportunistic fixed income.

Coming back to the mistakes we see when we work with smaller managers, we often find that they not only have the appropriate approach to marketing, but also don't really understand what their target investor base is. Unfortunately, when we ask them, "What does your marketing look like? What's your target market?", it turns out that most of them have no idea of how their target market looks like on a granular basis as well as on an aggregate basis.

For example, for managers based here in Texas, we believe it is important that they really understand that in this state alone we have between 9,300 and 9,500 individuals and families with minimum net worth of \$50 million. And their number is growing at a compounded annual rate of 16%. So when I sit down with a manager and I say, "Why are you going to TRS, the Teacher's Retirement System of Texas, as you mentioned earlier or some other institution like that?"

This seems to be the one and only runway the managers typically try to use, for sure many of the traditional long/short managers, trying to get into an institution like TRS without even reflecting properly about what that involves. They need staying power for at least four or five years, and that requires maybe a million-and-a-half to two million in the bank in order to weather that runway.

So the next question is then how is the manager doing with his traditional, historical market segment which is the ultra high-net-worth individuals, single family offices segment? How are you engaging with them? It's certainly not going to be, "I meet you today and maybe two months from now, hopefully you're going to give me some money." What does your process look like? How are you quantifying it? Most managers don't even understand the opportunity set on the buy-side that's right underneath their feet. Focusing on what I generally refer to as a geographical and relational footprint is critically important because that has financial implications. This is the third pillar we focus funds on when we work with them.

The strategic pillar is *what you're saying, how you're saying it, and who you're saying it to*. The tactical pillar is *execution with your ideal segment*, and finally the financial pillar is, *"What is the cost, actual cost of going out and engaging appropriately with those end users?"* And generally speaking, the research bears out that for private wealth, which is ultra high-net-worth and single family offices, it cost about 40 basis points per million in raised assets. Those are in cost for marketing and investor relations. For institutions, it's about 70 basis points per million.

That leads us into what the actual kind of marketing on the ground should look like if you do it within your geographical and relational footprint. Generally speaking, the average marketing trip within your geographical and relational footprint is anywhere from \$275.00 to \$325.00. The average marketing trip outside of your geographical and relational footprint is anywhere from \$2,750.00 to \$3,200.00. Most people sit back when I say this. Well, obviously those numbers have some significant financial implications when you're raising money.

If you're running all over the world and across the country, trying to talk to people who probably are not your ideal segment, you're wasting a lot of money, you're wasting a lot of time, and I don't think any small fund can afford to waste any time and definitely not any money because one of the realities in this environment is that the costs of operations are increasing because of greater regulatory intervention. Also investors are idiosyncratically demanding more and generally have become highly skeptical. So when you put those three things together, the dynamic and greater regulatory intervention, idiosyncratically demanding investors that are highly skeptical and informationally inundated and operations costs that generally are just rising every quarter as I see it, my recommendation to smaller managers is that they better be very smart and intelligent about what they are doing from an outreach perspective. and hopefully that number I mentioned earlier of 89% of managers that never get over \$100m assets will start to fall so that we will see more funds who are reaching that \$100 million which is that minimum institutional threshold. But until that happens, many times the wounds will be self-inflicted, but I also see that more people finally getting it, even if it may take some of them about two years for them to finally say, "Okay, I've been putting up numbers for two years and my AUM hasn't budged but a little bit. Maybe there is something that I'm not doing or something I need to be doing differently in order to engage with the appropriate end users as well as the intermediation points."

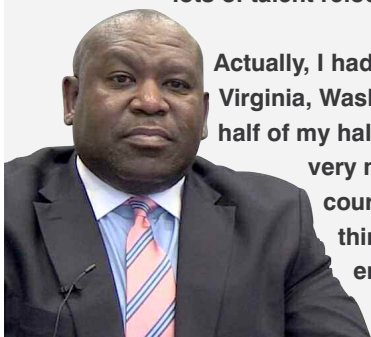
But the intermediation points are critical, particularly institutionally. Consultants control about 90% of institutional assets. They are generally risk averse as opposed to most high-net-worth individuals, with single family offices being risk tolerant. So you need to be able to work all 180 degrees in that spectrum from the risk averse to the risk tolerant.

Matthias Knab

I think you told me earlier that about 100 new hedge funds or actually hedge fund management companies were set up Texas just in 2014?

Bryan Johnson: Yes, that number was by my count, and I'm sure that there is also a significant percentage of managers setting up quietly. The number of small funds here in Texas is growing like a weed because we enjoy a very friendly economic environment here.

I moved here from New York and I love that there's no state income tax. I love the fact that the house that I have in Austin, if I'd have to pick that up and put it in the New York, New Jersey, Connecticut tri-state area, it would probably be three times the price. So Texas provides a very attractive environment, there's a lot of smart people here and still lots of talent relocating here.



Actually, I had my initial exposure to Texas when I first went to college. I went to a small school in Virginia, Washington & Lee, and half my hall was from Houston and went to St. John's and the other half of my hall was from Dallas and went to St. Mark's, which were two private schools in Texas that are very noteworthy. As I had no exposure to Texas prior to that, I got a great education in the course of that first year dealing with those guys and really getting a sense that people do think of Texas as its own place, its own country to a degree, but it's the spirit and the entrepreneurial spirit here is absolutely awesome.

Matthias Knab

Burke, you represent Akin Gump, a leading law firm globally and also of course here Texas. What do you see from your side?

Burke McDavid: Like Bryan, we also see predominantly long/short hedge funds launching, but also credit, direct lending, and more recently with the drop in oil prices, energy-focused high yield debt or credit funds.

Bryan already explained a lot of the dynamics and trends, and I liked his BC and AD analogy a lot. We all remember BC where getting someone up off the ground was a lot faster and a lot easier whereas today it's a more elongated process involving more parties and more infrastructure. Investors are becoming more sophisticated and inundated with opportunities, making capital raising that much more difficult.

The one thing I would add from the legal perspective is the need to have an institutional grade compliance program. I'd be interested, Bryan, in your thoughts about the best way for emerging managers to get well-enough organized. As you know, most of the traders or new managers that come out from investment banks, other management shops or other sources are typically very good at what they do — trading, investing, risk management, etc..



— but often they don't really appreciate all the other things that they need to do to run an asset management business from the operational and regulatory perspectives.

I think we all understand that this represents a rather significant challenge. So how do they dedicate the necessary time and attention to developing a consistent marketing effort while at the same time devoting enough time to understand the regulatory landscape so that they have their "culture of compliance" firmly instituted from the start and beginning with the business principal or principals? This is now one of the bigger challenges for an emerging manager, and I believe a lot of them come unprepared for that. We at Akin Gump do our best to educate them, and I think consultants like Bryan and many of the compliance consultants can be of real value at the early stage.

Bryan Johnson: To start, one of the key challenges for small funds is to distinguish between service providers and what I call service partners. Small funds need service partners, from all sides. So whether it's legal, so the work that Burke does; whether that's administration, broking or accounting. They need service partners and the difference isn't just a nuance.

The critical and I'd say clear difference is that a service partner engages with you consultatively to try to preempt problems that you may have. They can give you a really clear holistic vision of what the runway should look like for you. You can distinguish them pretty early. A service provider will come up to you and tell you, "This is what we charge." They are not really looking forward at helping you grow your business, so I think that's aspect number one. Number two is that, also from an institutional standpoint, there is nothing that it is more important now, in my opinion, than demonstrating that you have a culture of compliance. It's a risk mitigator for people to invest in your fund, and it helps you as a manager or employee of the manager to stay out of trouble.

I was speaking at an internal conference of a large accounting firm last week, and we spent two hours just talking about compliance. Gone are the days when you had a compliance manual that you blew the dust off when someone came in for a review. Now, that document or those series of documents and your process have to be a living, breathing thing that evolves as your firm evolves. There has to be a real sync between what's written and what's in actual practice. That is what investors and their due diligence people are now looking for now. It's not just "sure, we got a manual!" that really is a cookie cutter, and not knowing or applying any processes. I think from a due diligence standpoint, the buy-side is really getting smart about how to identify if there is really a culture of compliance in place.

One of the things that we've seen during due diligence visits is parallel interviewing. You sit two people in a room, different rooms, and you have your team interview them with the same set of questions, do the same answers come out of those interviews at the same time? It's the not sequential interviews you used to see where one goes in after the other. Well like, "Well this is what they just asked me, this is what you need to say." They are asking simultaneously now and seeing if the answers sync up. If they don't then that's early indication that there may be some problems.

But regarding the institutional rigor and the institutional process, like Burke said, if you can't demonstrate your ability to get there, that's a problem. There are three kinds of stations on a spectrum where managers can find themselves. Usually managers coming out of big shops want to be minimally resourced. Investors, on the other hand, want a fund to be optimally resourced. So the challenge in the middle ground is to make the case that the manager is appropriately resourced, and that's where that tension comes in between the optimally resourced firm and the appropriately resourced because from the investor's standpoint, it's all about managing that operational risk that they don't want to take and they shouldn't. So that's their focal point.



For the manager, that minimally resourced to appropriately resourced position certainly has financial implications and when they are writing checks in the beginning, it seems like they are always writing checks and they may wonder like, "When is the check writing going to stop?" Well, it's never going to stop and in fact the checks are going to get bigger as you go forward, so you better get used to it because you're going to be filling out your execution blueprint internally and externally.

So from a compliance standpoint, that's the ever evolving atmosphere that a manager will be in and a challenge he will always going to be up against. Therefore I tell managers first and foremost, "If your operational execution blueprint and the underpinnings of that are not sufficient, I don't care how great your performance is if you can't meet the qualitative demands. No quantitative metrics are going to get you over the hurdle." And part of those qualitative aspect is compliance, so I couldn't agree more with what Burke is saying.

Matthias Knab

Adam, you set up Segra Capital about 18 months ago here in Texas. Was it helpful for you to start your business here? And secondly, one thing that we now often see in Europe is the use of platforms where a solution provider who often also lends his regulatory umbrella helps managers to launch very quickly at much lower general overhead costs. You see a lot of different platforms and different models there, but I don't believe I have seen it here in the U.S. as much as I have in Europe.

Adam Rodman: Right, at launch we considered a number of different cities in which to base our firm. A large part of the reason for choosing Dallas had to do with escaping the group think found in some of the larger financial cities, but I would be lying if I said that the cost structure of operating a business in a place like Texas doesn't make it extremely appealing. Our due diligence, vetting New York, London or Dallas, showed that the operational costs in Texas would be approximately 25% of those in New York and about 20% of those in London.

I was approached by a few platforms before I launched Segra. Knowing other people in the industry in New York and London, it's an option they often consider. It wasn't the right fit for me. As we're trying to tie in elements of Texas to this discussion, I'm happy to say that most of the younger managers I know locally have also turned down those opportunities. Perhaps it's the more entrepreneurial spirit of Texas (both on the manager and the allocator side) or just the favorable cost of operation – but more managers are choosing to go at it alone.

When we talk to investors, we really try and hammer home the point of our cost advantage. In terms of optimization of our cost structure, it's pretty incredible what we've been able to accomplish, building an institutionally prepared fund on the budget of a start-up.



Edward Ondarza: The first fund I was involved in was on the Ospraie Wingspan Platform where we were one of the managers on the platform. We had operational infrastructure support from Ospraie, which was a tremendous opportunity for me from a learning experience. The operational knowledge I have today for running a fund is greatly based upon that experience. I used to joke that there was this great arb between Texas and New York because I had support from Burke here at Akin Gump and other service providers such as Deloitte, and my overhead for our firm was about a third to 40% of what the New York managers were paying for the same providers. So all of my service providers were based in Texas and as a result we experienced great savings that our investors enjoyed that the East Coast managers were not able to provide. I believe managers have recognized the benefits of setting up shop in Texas and more are doing so.

I totally concur with Bryan in respect to having service partners. I don't believe we would have been able to enjoy the success and growth that we have had at this stage with our newly launched management firm without people like Burke at Akin Gump or Jorge de Cardenas from our administrator Kaufman Rossin who's been a huge asset to us. We launched with \$40 million of seed capital and with the support and attention from these two parties; we were able to start the business as a three person team.



I don't think we would have been able to do what we did and leverage our team and grow so quickly and so thoroughly without Burke and Jorge's attention. These service partners were extensions of my team during the startup period and then for another six, seven months after launch. We have since hired our CFO from Kaufman Rossin who was involved with our business from the beginning stages, so he was able to join the team and have an immediate impact. We've just brought on another individual from a fund that's based here in Dallas to join us that will be a senior analyst and also our chief compliance officer, similar to the responsibilities he has now.

As we are managing money currently for pensions, a sovereign wealth fund, two buckets of ultra high-net-worth capital and a few fund of funds, we have to have a capable operational team with more than adequate infrastructure to manage the existing business and plan for continued growth. I agree with everything Bryan mentioned, it's imperative to have the operational infrastructure in order to manage all of the demands of running the underlying business. Without this, having the best investment strategy will not be enough to make the business successful in the short or long term. I'm fortunate that I went through the course of being the chief operating officer of two fund managers and also having ran a few commodity trading businesses at Enron and National Bank of Canada. Properly managing the business of an investment management firm has to be as much of a priority as the investment strategy, and most PMs take that part of their business for granted and are not experienced or equipped to do it properly.

The other point that I'll mention is we are very fortunate we have this unique strategy that large institutional investors have found attractive. If we were a long/short equity or a commodity manager which I had been involved in before, you not only have to have proper infrastructure, the only way to differentiate yourself from your peers is through generating attractive returns which means putting your business at risk everyday which is tough and personally challenging to the entire team. We are very fortunate to have identified a strategy where this is not the case.

Bryan Johnson: One of the things that I always need to explain to managers is that performance will get you attention but it will not get you an allocation. It's a conversation starter and one of the many things that you as a manager need to convey. Again, it was refreshing to me listening to Brett and learning about the depth of the education that he extends to and delivers to investors because that is critical, and performance is just one data point. We all understand that investors will then do their own attribution analysis and figure out if it's real and sustainable or they are just being offered levered beta. Investors want to understand what a manager is really giving them.

So investors need to understand and be educated, particularly if you are marketing a bit outside of the bubble of professional investors. Dealing with single family offices, as I am sure you and a lot of us do, we find that the dispersion of experience is extremely wide. For example, we deal with mid-west families that have hard asset wealth, maybe oil, gas, real estate, maybe more manufacturing, while at the other end of the spectrum you have what I call soft asset wealth or intellectual property-based technology entrepreneurs. Those two groups have completely different mindsets about investing, and completely different approaches to manager selection and evaluation.

That also means that the educational process necessary to get them comfortable to reach that level of actionable conviction is completely different. So I will agree with you that performance is important as a way to start the conversation and to get the attention. But after that, it really goes back to what I said before, there has to be that clear, consistent, concise, compelling process articulation. And then this will be what ultimately is going to get them to the point that they have the appropriate conviction about Brett or Adam or Ed and say, "Okay, we understand. We understand." So from the manager's perspective that is a continual process, and it's also a defensive mechanism because it draws a ring around your AUM. If you don't have that level of education that results in conviction, the moment that there's some turbulence or hiccup, what's going to happen which a lot of managers who grew up in BC found out? The AUM starts flying out the window and you get the FIFO experience, what I call Fast In Fast Out money, if you don't have any education around your process. People want to understand the process, and therefore, in a way, I tell people that orange is the new black, that process is in fact the new performance.



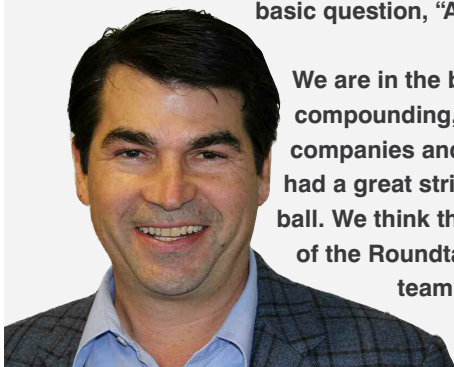
In my years of doing this, I often found that I really need to hammer that down. I'm really kind of jazzed about being here at this Roundtable after hearing the three managers talk about their firms. That includes for example Adam's explanation about some of the thematic things he's looking at. I can tell you that your approach is standard deviations away from what I normally see from managers who don't really get it.

We need to remember that most of us are really inside the bubble. What I mean by that is if you're from "The Street", those who've lived, worked, grew up in New York, for example, are really in the bubble. And you are used to talking to people who are in the bubble with you. Even from a language perspective, there's this whole language that we develop talking to each other because we get it, but the issue is that you can't talk to a family office who's not in the bubble in that way. The mnemonics and all the other things that we use, all that needs to be more user-friendly

Let me also add a quick comment on transparency, as people talk about it all the time. Also here, transparency means nothing without education. You as a manager can provide all the transparency in the world, but if you don't provide that level of education, then in the end you're just going to be out as well.

Brett Robertson: This is an interesting discussion, I feel like I need a remedial course in marketing since it has taken me 20 years to approach \$200 million. I also found Bryan's allegory of the Unicorn Institutional Investor quite interesting because we early on decided institutions were not as good a fit for us, and therefore didn't focus on that segment. We are research guys. I don't think anybody in the shop really likes marketing. I'm probably the most marketable of the group and that's not saying much. We would rather get out, research and invest, as we all love to do. For us that's just so much more exciting for us to be on the road five days a week talking to companies and management teams, learning and honing our knowledge and insights.

If we can interlace a marketing meeting, on a portfolio trip, anyway, that is fine, we'll do it but we spend very little time with it as a shop. We don't have an internal marketer and we probably should, but we continue to come back to the basic question, "Are you in the investment business or the business of investing?"



We are in the business of investing as opposed to asset gathering. In that role, focused on compounding, we tend to run around paranoid all the time of making sure we know our companies and what is important to their success. We've seen so many great investors that have had a great string of performance and then blowout. We really don't want to take our eye off the ball. We think that too many days on the road we'd sacrifice that. So I'm curious as to the thoughts of the Roundtable regarding that balance. At what time do you bring in the internal marketing team and do you institutionalize the marketing effort?

Bryan Johnson: I think it's critically important to have a marketing process developed that eliminates inappropriate, inconsistent, inadequate, and ineffective marketing. I am sure you are aware that marketing is more than just gathering assets. You also have to focus on asset retention, so really the acquisition, expansion, retention and stability of your AUM all falls in the marketing bucket.

My recommendation is to bring on a dedicated marketer as soon as humanly possible. Of course we are talking here about a skilled individual who knows how to do it well.

Too many managers, in my opinion, give short shrift to the skill set of a good marketer. You would never give a short shrift to this skill set of a great trader but most people give short shrift to the skill set of a good marketers, particularly in this environment. It starts with simple things like follow-up and follow-through.



If you're busy investing and visiting companies as you should be, who's doing that follow-up and follow-through? Who's consistently taking the pulse of your investor base to make sure that it is stable and that the assets aren't going to be flying out the door?

The following is a conversation that unfortunately I have had with a number of times with clients. They call me up and say, "So and so just sent us a redemption request, it totally blindsided us!" I typically tell them, "No, you didn't do your homework. They were sending you signals along the way that you weren't paying attention to. You weren't really taking the pulse of that particular individual, of that organization well enough. If an investor is talking the time and the expense to vet you, which is not a cheap undertaking, they have deliberated a long time before investing and perhaps more time before they pull the plug on you. Therefore there will be some things that they have told you, signals they sent you, but that you haven't paid attention." See, a good marketer will be aware of those things and act early.

So that is why having a good marketer also helps you in your overall business, particularly when it comes to the longevity of your business. There may be a certain volatility in your AUM, but you as the PM or CIO don't want to deal with that. Particularly, if your AUM is performance dependent, then you're really in a bad place because if you have good performance, they will stick around, and when not, you can watch the assets going out the window and if the redemption hit is big enough, it will put you out of business.

Therefore my recommendation is always to take on a good marketer as soon as you can, the earlier the better. But more importantly, you also have to start out constructing a process. A process of comprehensive and consistent engagement - what does that look like? How are you measuring it? Most people don't measure their marketing. We have a proprietary measure that we developed called marketing VAR, which measures your visibility, awareness and relationships at any given time. The marketing VAR can tell you what your retention and acquisition of AUM *is going to be*. What I can also tell you is that growth in your AUM as well as lack of growth or loss of assets are all lagging indicators. You rather want to look ahead and be proactive about your business as opposed to what you're thinking about your funds.

In that context, I believe all start up managers need to be honest and answer some basic fundamental questions right when they start. So I ask funds right off the bat early on if their intent is to create a business or you are they just running a trading account? Because depending on their answer, they will have fundamentally different questions to answer and focus on different things. If for example someone wants to run a fund but at the back of his mind he's like, "I'm going to do this for a couple of years and then get out of this", that will not be a business that's sustainable. I also don't think that any particular family, individual or institution wants to be in a trade. They want to be in bed, or expressed properly, have a partnership with somebody who is running a business. Investors can find a trade anywhere, but finding a business partner is a completely different animal.

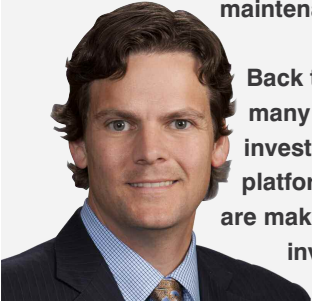
But that is what I believe families want. And also from a generational aspect this is particularly important. I have a meeting with a family here in Texas, and you can see how the patriarch really cares about his grandkids. So he is also looking for a manager that has a process that How do we have a sustainable relationship with a manager that has a process *"my grandkids could really fall into instead of them having to go out and find a whole new set of relationships? How do we work that?"* Those are some of the more fundamental issues, particularly this environment. So if you as the manager are able through your holistic marketing to offer investors that business perspective and substance, I can tell you from all the funds we've talked to that you'll be in the distinct minority if you're doing that.

So back to the question about hiring a marketer, I would say start early, but begin with a process. It helps to sit down with people like Burke early on and go through all the things you need to be thinking about, that you need to consider.

The truth is that in about 25% of the meetings I have with small managers, I end up talking them out of starting a fund. Seriously, I'm just candid and tell them, "I'm saving you from yourself at this point because you're not prepared to do this right. I understand you want to start a fund, but you're not prepared to, whether financially, mentally or emotionally to do this because it is a holistic commitment, and if you don't understand that, it will bring havoc in your personal life."

I had one guy call me not too long ago, I didn't take him on his client but I always say, "My phone is always open to you, you can call me back," and he's getting divorced now. He went out against my recommendation, had a hard time, didn't raise any money, told his wife and his family and his friends that he thought he was going to do exceedingly well, and he didn't. Now, everybody is disenchanted with him. His wife says, "I can't do this anymore. It's been a couple of years now, and you haven't raised any money, all our money's gone, what do we do now?" So that's when it helps to have that precursor discussion with somebody who's seen the road, knows the road, knows where the holes are and the pitfalls are, and say, "These are the things you need to be thinking about and I'm here to help you before think through those things in a very granular way, so you can make some decisions."

Burke McDavid: I think a lot of what Bryan described as marketing can also be called investor relations and business maintenance, and those are obviously vital for any asset manager.



Back to Matthias's question regarding platforms, I think you are right, we are also not seeing that many people joining a platform. Maybe this will change as more funds want to access European investors across the European Economic Area due to the AIFMD, so we may see some more use of platforms in that context. But I also think that for the most part, particularly smaller U.S. managers are making a strategic decision that it is not worth their time, effort and money to go after the European investors, at least for the moment.

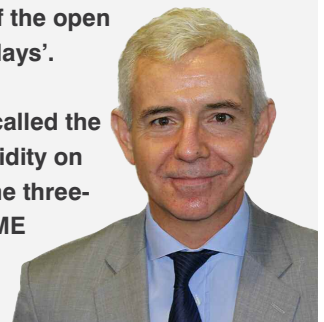
Paul MacGregor: I liked your points regarding marketing or business development. I think exchanges can sometimes be guilty of just putting their data out there and expecting people to come and trade their products.

If volumes are attractive, some exchanges assume the buy side will just be attracted to those contracts, which is not a good assumption to make as the buy side is at least one step removed from the exchange. They're generally not members of exchanges; they generally don't take on that mandate. The LME has until fairly recently been a member-owned institution. In 2012, the LME was bought by Hong Kong Exchanges and Clearing (HKEx) and since then we've completely recalibrated the way we do business development.

In my role as Head of Sales I have a completely new team, and I've brought in a person to run sales into the buy side. It is that person's responsibility to specifically build relationships with the buy side and tell the LME story. Now, it's not enough to point out that we handle 80% of the world's trading in base metals futures. We need to ask what that really means to the buy side. And one thing it could really mean to the buy side is that, when interest rates globally are held at zero for a long period of time, you can use base metals to take a macro exposure within your fund, because base metals closely track GDP performance. This is particularly so in China, which is the source of more than 40% of the global demand for base metals.

Today, a lot of macro funds are starting to move away from some strategies, certainly European strategies, because they know what's going on at central banks. They don't expect to see changes in interest rates for a long time. So we're reaching out to the buy-side community and explaining how the LME works, because the LME compared with other derivatives markets is very unique. It is not your traditional futures market, and behaves more like a forwards market. Most of the daily trading liquidity is in a three-month rolling contract, more than 65% of the open contracts on the LME are set to expire on the same monthly dates, which we call '3rd Wednesdays'.

If you're coming in as a macro fund, what you normally want to do is take a position in what's called the 3rd Wednesday contract, which is the general monthly future. But you will see little screen liquidity on that if you log onto our electronic trading platform, LMEselect. You will see all the liquidity in the three-month rolling prompt. So you will take the position in a three-month, and you then phone an LME broker ask them to carry your position to the 3rd Wednesday.



A lot of the feedback we've had has come not just from the buy-side but also proprietary trading groups. They say that if we could make 3rd Wednesday monthly futures contracts more liquid, we would see a lot more business coming to our marketplace. In response, we have announced a number of initiatives to attract people onto those 3rd Wednesday contracts, such as lifting the order-to-trade ratio for the first six tradable outright 3rd Wednesday months for full-sized contracts for aluminum, copper and zinc. We aim to attract algorithmic strategies where people want to, for example, trade the LME against other exchanges. We are also looking into incentive programs, which would be targeted at proprietary trading groups and proprietary funds within the buy side.

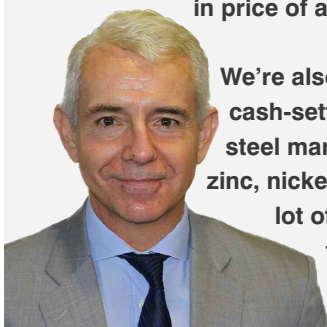
Matthias Knab

Commodities are obviously always a big theme in our industry, and how to access commodities and get exposure is part of the equation. I found it interesting to learn about the product mix you offer. Can you share with us more details about them, and also how the trading volumes have developed?

Paul MacGregor: Organically, we are still seeing a period of strong growth relative to other exchanges, and our volumes grew 3.5% last year. In 2014, 177 million lots were traded on the LME, the equivalent of 4 billion tonnes and \$14.9 trillion in notional value. The vast majority of trading on the LME is for hedging purposes. If you take an LME contract to settlement, you are going to be delivered, or have to deliver, metal. But only 1% of contracts do go to settlement. The physical industry trades bilaterally and then hedges on the LME to make sure prices are locked in.

The LME's main contracts are aluminum, copper, zinc, nickel, tin, molybdenum and cobalt. We're seeing steady growth in all of them across both the futures and the options side.

But in terms of new products, you may well have already seen recently in the press issues around increasing aluminum premiums. So we are launching new premium aluminum contracts in October covering four regions: North America, Western Europe, Southeast Asia and East Asia. What that means is if you trade the premium aluminum contract along with the base aluminum contract and you take it to delivery, the warrant you get is called a premium warrant. Premium warrants allow people to access aluminum instantly, in locations convenient to them. So the full all-in price of aluminum is then reflected in your hedge, which is very, very important to the industry.



We're also launching two new steel contracts later this year. We are launching cash-settled scrap and cash-settled rebar contracts. These products move the LME more into manufactured products, and the steel market is absolutely enormous. Currently, steel producers hedge their inputs, such as the iron, zinc, nickel et cetera to produce their final product, but they don't hedge their outputs. And there are a lot of steel consumers that want that steel price to be hedged on LME. So we intend to launch those two new products, and then that can potentially take us into other new products areas as well.

Matthias Knab

That's really good news. I remember the 2014 London Roundtable where the CTAs who participated said they would be so happy if there would be a steel contract for them to trade. So it's good that you are developing this product now.

When I speak to traders and CTAs who are active in the soft commodities market, they love their niche and one reason for that is that the financial traders or "arbitrageurs" how they were called in the old days are a minority in the market that is dominated by physical producers and commercial users or hedgers. They say that being in such a position allows them to really extract alpha from the market. Would that be the same or comparable in your markets and your products?

Paul MacGregor: That's a good question. We estimate that about 10% of LME volumes is based on proprietary or buy-side trading. That is a very low number. The vast majority is made up of member trading or physical hedging – for example, car manufacturers needing to hedge the price of aluminum.

So we think there's a huge opportunity for new buy-side users, algorithmic traders and strategy-based traders to enter our marketplace and provide liquidity. On most liquid futures exchanges you'll see that proprietary trading or buy-side accounts for about 40% of liquid futures contracts. So there's a lot of growth potential here.



Matthias Knab

We know from other exchanges and all other listed instruments that the market tends to become more efficient the more players and volumes the instrument can attract.

Paul MacGregor

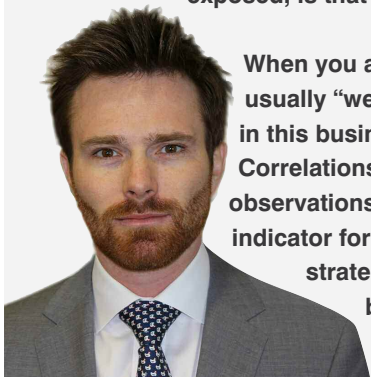
Yes, liquidity is key, and liquidity tends to beget liquidity. The interesting thing about the commodities markets at the moment, and why they're so attractive, is that they're volatile. There's not a lot of volatility in other asset classes, and people are hunting for yield. So base metals are an interesting space..

Adam Rodman: I agree that commodities will provide interesting opportunities going forward. What's maybe been a bit different or difficult for more differentiated managers operating out of Texas is that allocators based here have been in the middle of two strong and dominating opportunities: one, the shale revolution and two, the U.S. equity bull market. So, a lot of family offices and high net-worth individuals here in Texas have had access to an incredible bull market in energy where if you had a pencil and a plot of land, it was pretty likely that you could prick quite a bit of oil or gas out of it and make yourself quite wealthy.

And then, perhaps in a more accessible and vanilla way, the U.S. market has enjoyed quite a bull run. Long-short equity funds, and particularly beta chasing strategies, have been great to investors.

The U.S. equity market has been very difficult to beat. I just thought of bringing this up given the earlier comments about volatility in metals. There is zero interest rate volatility out there and perhaps there will be less given what the ECB is doing. There has been very low volatility in equities, very low volatility in credit.

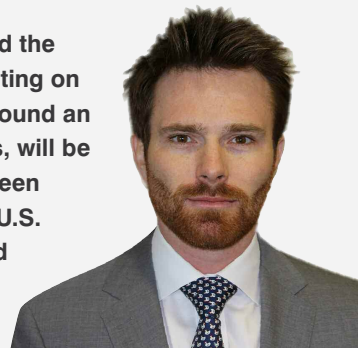
As a result, I wouldn't say universally but to a very large extent, we've had extremely high correlations globally: high correlations, low volume, low yield. Not a very good cross-asset environment, which is what Segra focuses on. But we believe things may be changing, and that the next five years will look nothing like the last. The prevailing viewpoint amongst most allocators we speak to, and this opinion is based purely on where said allocators are most heavily exposed, is that the next five will be very much in line with the previous five.



When you ask, "What do you like out there?" most don't have something new. The response is usually "we CONTINUE to like" or "we are comfortable in our positioning." There hasn't been a time in this business that I can think of when there has been less excitement about new opportunity. Correlations are very high in trending markets, it has been painful to be a contrarian. But these observations don't last forever. We are starting to see cracks, maybe driven by the dollar as an indicator for divergent monetary policies and economic cycles. If the cracks break open, uncorrelated strategies should start to come into focus again. People that are able to peel away from simple beta, or general trend following will win.

Adam Rodman: Well, it's perhaps not so much a warning, I don't want to sound alarmist in any way – more of an observation. But nonetheless, it is what I believe, which is to say that yes, there is a lot of conformity out there. We have a very open mandate and I can say that in terms of the opportunities that arise from our process, we see increasingly little in U.S. equities.

You currently get very little return on your investment in traditional assets (think bonds) and the traditional parts of the global markets where people are looking most. Those who are counting on the next five years being like the last five... perhaps they do okay. Again, I'm not trying to sound an alarm, only highlighting that I believe the more interesting opportunities, and better returns, will be found in assets that have been overlooked, have been correlated when they should have been uncorrelated, et cetera. There are simply far too many people looking at small-to-mid cap, U.S. long/short strategies, "U.S. event driven" strategies et cetera. Whereas, again, uncorrelated macro, or opportunistic strategies have really been left for dead in a lot of ways.



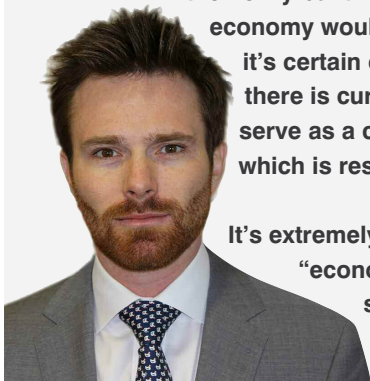
Paul MacGregor

Have you seen or looked at specific China-based strategies, including the currency aspect with offshore RMB?

Adam Rodman: Actually, yes, and that is largely due to my background. Another Corriente partner and I, with Mark Hart at the helm, really built-out that firm's China focused strategies. China is always central to my thinking about the big-picture. To your particular question, if I had one thing that I believed would be the focal point or should be the focal point of all investors over the next five years, for all asset classes, it should be China and perhaps the RMB most importantly.

I'm probably not saying anything that everybody here doesn't know, but China is not what meets the eye. The economic condition of China is very uncertain. That may be stating the obvious now, but when I made my first trip to the newly built "Ghost Cities" in China sometime in 2009 / early 2010, most China analysts thought the economy would grow at 10% or more into perpetuity. That's clearly no longer the case... I'm not saying it's certain catastrophe, but the economy is walking a very tight rope. You mentioned the currency, there is currently a lot of pressure - over the last month or two - on the RMB. Capital flows in China serve as a critical component of interbank liquidity, which drives their credit creation mechanism, which is responsible for this economic recovery and stability that they've had over the last five years.

It's extremely complex and extremely simple all at the same time. Credit growth is vital to Chinese "economic growth." Credit growth has been supported by money pouring into China, which also supports the currency. Those flows are reversing, leaving the economic picture uncertain.



Paul MacGregor

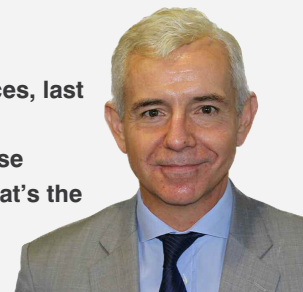
Have you used Hong Kong Stock Connect at all?

Adam Rodman

We have used the Stock Connect. We do trade a lot of both onshore and offshore China in the equity space.

Paul MacGregor: One of the big opportunities for all of us is the opening up of China's markets, particularly of the financial markets. The LME is part of the HKEx Group, which initiated the Stock Connect to Shanghai and hopes to extend that to Shenzhen. We are very, very excited about what this means for commodities. China has some of the world's biggest futures and commodities markets, and there are parallel markets to LME such as the Shanghai Futures Exchange. And we have the team in place now that can link these markets together – HKEx has proven that it can do that through Shanghai Stock Connect. I think for the LME business, it puts us at the cutting edge of the opening up with China, so we're really quite excited about that.

HKEx launched its London mini contracts for aluminum, copper and zinc, all based on LME prices, last year. They are smaller five-ton versions of the main contracts. They are cash-settled, and are denominated in offshore RMB. These products are attractive for the Chinese retail market, whose investors might only have access to the Shanghai price but want exposure to the LME price. That's the start of a whole suite of contracts we're looking to roll out in Hong Kong.



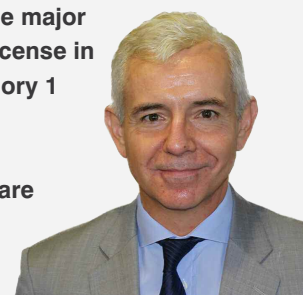
Adam Rodman: Well, deregulation and liberalization of all assets and policy, and most importantly economic policy, is really the key. So you should probably stand to benefit. I'm firmly of the view that the widely agreed upon property bubble that exists in China is a function of liquidity in property and lack of liquidity in other assets. The massive rally that we saw in the Shanghai equity market at yearend 2014 was essentially front-running of the stock connect liquidity catalyst. Property markets have been fundamentally damaged for years but supported again, by liquidity which has had no alternative. On the back of the stock connect, investors saw the domestic equity market as a new option.



Speaking from a very macro perspective here, but as soon as commodities become as easy to invest in as domestic equities, as Hong Kong equities, general transaction volume and turnover should increase.

Paul MacGregor: One last point I should make on the China phenomenon is that a number of the major Chinese banks have now arrived in London. They're getting their FCA authorization or branch license in London. And the LME has Chinese members now too. One Chinese broker has become a category 1 member of the LME, meaning they can trade on the Ring – our open outcry trading floor.

While the commodities business has naturally shrunk in some parts of the world, commodities are fundamental to China. A lot of Chinese firms are keen to take up the space left by other firms. That's a big trend we see.



Adam Rodman

And have they arrived at the exchange with the inventory? No? I mean, isn't that a bit scary? I wonder if they had accumulated a certain amount of metals off exchange...

Paul MacGregor

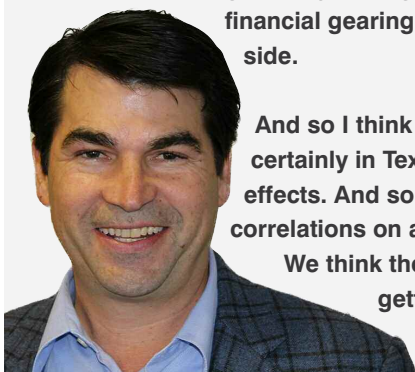
These firms have large client bases with significant exposure to metals. And clients want exposure to the LME price because they know that's where the global price is set. The global price is still set on the LME in London.

Brett Robertson: I thought it was interesting that Adam touched on the enormous expansion of global liquidity. What worries me is the lack of true price discovery and the misallocation of resources of this artificial support. We may be seeing the effects of a more sobering look at the prices we took for granted just a year ago which has certainly manifested itself in commodities and especially the metals and mining companies.

Having grown up here as a Texan, we have seen a lot of such cycles first hand with oil. Some of us here will remember the effects of the ravaging recession we had in 1986 when oil hit \$8 or \$9 a barrel. Not only did we have to suffer through that, when a few years later we suffered through the second whammy of the Savings and Loan crisis in '89. At that time it was said that more than 30% of the local Dallas employment was related to real estate which was much more than today tied to the energy business.

We may be seeing the beginnings of something wrong with the market mechanism due to our dependence on the massive global liquidity since 2008 that has driven this six year recovery. Consequently at Robertson, we have run our net exposures as low as the 30s, 60s, and 30s for the last three years respectively which is very defensive for us, given that we are traditionally a long biased manager. I think this is very unique, not because we devised some kind of macro view which we expressed in our positioning, but more so because of the fundamentals at the ground level where fundamentals on a company by company basis dictate inclusion or exclusion to the portfolios for our long, short, or credit exposures. In fact, we believe credit has been a sucker's bet for the last three or four years and remains so today.

These are very obvious cycles, but the short book has grown. Our net equity exposure has been reduced as portfolio companies hit intrinsic value targets and so that natural self- leveling has taken it down. We run a little differently than your typical long-short in that we have run without leverage certainly the last three years and it's really never been an important part of our strategy. Whereas, a typical long-short fund carries maybe, two to one leverage or two-and-a-half to one, in some cases, three to one. It's just a different type of risk and I think it's very important for an investor to know what kind of risk they're taking, whether it be positions or financial leverage. For us, risk is more in the positions and generally having longer net exposures. But for others, the net exposures may be lower but there is that financial gearing risk, it could be just as devastating if the positions blow out, on the long or short side.



And so I think it's critical for investors to focus on what they're comfortable with. We've seen it certainly in Texas, and we know things can seemingly come out of nowhere and have devastating effects. And so I think it really pays to be focused on risk after six years of bull market and the correlations on a lot of these assets. Clearly, it has heretofore really paid to be long -- even 100% long. We think the game is changing. Going into its seventh year of bull market, it appears to us to be getting long in the tooth. Certainly, we can always count on one thing as investment managers and that is there will be change and you have to be prepared for it.

Bryan Johnson: Earlier about volatility, at the end of 2014, I wrote a paper where I expressed the thought that volatility was going to be a big issue going forward because we are coming to a point where global central bank activity will be less coordinated. And I think one of the biggest manifestations so far was the unpegging of the Swiss Franc a couple of weeks ago. So it's clear that economies are at different stages now and therefore we may be talking about probably increasing rates while other places will still have to depress their rates. That's going to create a lot more global volatility and along with that a lot more opportunities.

Anybody who has been with a CTA or simply in our space long enough would concur that the markets are in a way primed for volatility. And we need volatility in order to generate alpha, so we should all have some form of confidence when we're looking into the future.

Coming back to Texas in this Roundtable discussion, I feel one of the things that a lot of people don't understand about Texas is the breadth of opportunity here.



Most people will think about energy, and maybe not much more. But I remember back in the early '90s when I was going to Houston or going to the Woodlands, I was actually investing in biotech companies, and I was coming to Dallas I was looking for enterprise software companies. A lot of that talent and many of those opportunities are still here. In my mind, Texas is a microcosm of the world economy, so it's not just energy, oil and gas.

The other thing too that's happening here in Texas is revealed when you look at the migration statistics. The number of people coming here are just off the charts. I know in Austin, we get a hundred new people moving there everyday. The implications of that growth are very attractive, not only in terms of residential or commercial real estate, but job growth, service and health sectors, and so on.

Let me also add one last thing about the local family office investor base here in Texas. I already spoke a bit that depending on their background different families are comfortable with different strategies and investments. What I try to focus on with individuals and family offices include things that are outside of their core competency, so outside of what they generally have expertise in.

Most of the family offices here in Texas have a core competency in oil, gas, real estate – those assets have traditionally been their source of wealth creation. That means they have familiarity with those sectors and they have infrastructure to evaluate those types of opportunities pretty readily. But if you take something that's outside of their core competency, often they don't have the infrastructure or the relationships to probably vet it appropriately. Therefore, and that is the downside, they may be missing opportunities.

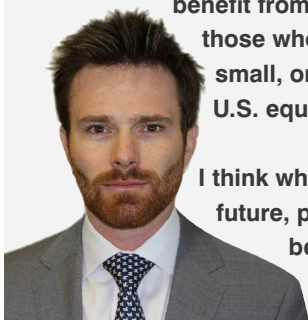
So also from that side one of the things I do is to educate the high net-worth and family office space about the breadth of the other opportunities that are out there, and what they need to do to take advantage of those. One way of doing that is to remind them of the cycles. If you speak with an oil and gas family here, they will also remember when oil was \$8 a barrel, and they also remember the lumpiness of that. So now they have come to understand their concentration risk and are asking themselves how they can build out or diversify their assets and diminish that lumpiness. They will understand that when maybe oil takes a dip, their overall returns could be smoothed out because of their investments in other things. And that brings us to an attention question.

I had a meeting with a family a couple of weeks ago and have been talking to them about some intellectual property focused types of managers. And it was hard to get them to focus because at that point in time, they started to gear up for the distressed opportunity energy here in Texas. They were like, "Look, we know these shale plays, with oil at the lower level per barrel than it is now. Those companies heavily financed with debt are going to need financing. That's a huge opportunity for us right now!"

So while I had their attention at one point before the whole decline of oil, now due to familiarity and a compelling opportunity their focus is back on what they know, what they're comfortable with as opposed to something new. Not that they won't come back to something that's outside of their core competency but if the most compelling opportunity now is inside and they have the relationships to capitalize on that very quickly, then that leads the emerging manager who's trying to make a case for their fundamental kind of approach which is equally compelling probably in their mind on a harder road in order to get and maintain that attention when these other compelling opportunities bubble up.

Even the wealthiest families hand out their money in chunks, so we are always dealing with a finite amount of capital that's going to be deployed in certain ways. So those \$20 million that I might give Adam or someone else may now be going to go to that distressed play, because that's that's bubbled up right now, I know the game, even though I may not know how long it will take until that distressed scenario plays out. This is another issue that a new or early-stage manager needs to be aware and also talk when he's positioning himself from a marketing standpoint in order to continually and consistently raise capital.

Adam Rodman: Since I – very fortunately – was appointed the beneficiary of Bryan’s hypothetical \$20 million allocation, I’ll just step in! Bryan, you mentioned that you have written a paper about volatility and mainly how like the divergent monetary policy and economic cycles seem to be happening again or we might be on the cusp of getting to benefit from that again. The fact of the matter is that it’s been a difficult road for global managers versus those who are U.S. focused... and I say this honestly, being a global manager. Outside of some very small, one-off macro opportunities here and there, better risk-adjusted returns could be found in the U.S. equity or bond markets.



I think what we at Segra are excited about now is exactly what you allude to in your paper: that the future, perhaps not this month or next month or even a quarter or two from now, will be different. It will be more volatile and less correlated. Navigating that new landscape will be key for investors.

Burke McDavid: Bryan, I’m curious what your experiences have been regarding the JOBS act and manager appetite for conducting offerings with general solicitation under Rule 506(c). I believe managers are mostly still in a “wait and see” mode for the most part, although we’ve had a few clients begin to use 506(c). I believe most are waiting to see what the proposed rules end up looking like and if they are adopted as proposed or not. And I don’t think managers are interested in general solicitation because they want to advertise on a billboard or on the radio or the like; it’s really because they want to be able to put information on their website, speak more freely at conferences and make comments in the press.

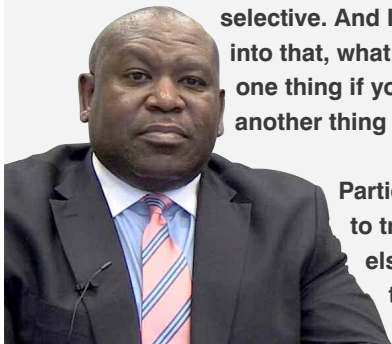
All that would be nice to do without the specter of running afoul of the general solicitation rules. However, managers are still uncertain of what the SEC may ultimately do given that the SEC has made a point that they’re going to focus on this issue and managers using Rule 506(c). That in and of itself I think is preventing fund managers from using it. What are your thoughts on this and what are you seeing in terms of usage of this new rule?



Bryan Johnson: You are right in the sense that the JOBS Act has certainly been interesting, and probably in about 30% of the conversations that I had people bring it up.

I always felt that in a way that JOBS Act was just a non-starter for sub-institutional funds for a number of reasons. But we have been having increasingly more conversations about, does it fit? Where does it fit? What should we do if anything around that? I think it’s been that discussion or the thought of using the JOBS Act has been more driven by the service providers who will deliver services to funds, who want to use the JOBS Act, the PR firms and people like that.

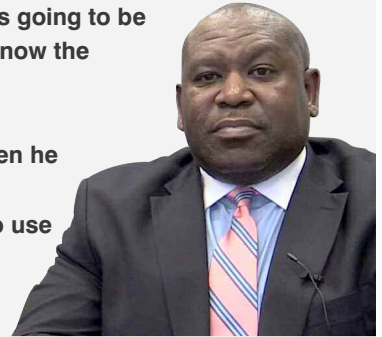
So I think that there are certainly things, certain strategies that can be used in that, but it has to be very selective. And I also think that a lot of funds are just kind of wary of -- it’s a Pandora’s Box. If we get into that, what do we -- are we opening up ourselves to scrutiny from places that we don’t want? It’s one thing if you want to reach those end users and you have the mechanism to handle that. It’s another thing entirely if you don’t.



Particularly in this business, most of the people get into managing a fund because they like to trade, and they want to minimize the headaches of dealing with regulators and everybody else. So many will say, “I don’t want to deal with that. I don’t need the headaches.” But I think it’s certainly a popular discussion item.

Bryan Johnson: Up to now, not really. I think everybody is waiting for two things. They are waiting for a firm that they know is popular to really do something significant, more than a one-off, and then once that happens, then there may be some follow on. But there's bulge bracket firm that's done it. I think from the two noteworthy examples, there's been that one firm out in California that was really small and then there was a one bulge bracket firm up in the city that did something and got a little bit of noteworthiness from it. Anecdotal, this is going to be my own barometer, when Scaramucci and SkyBridge start to use this JOBS Act, then I'll know the adoption process has started and other funds will start to follow.

I mean, Anthony Scaramucci a genius to me when it comes to marketing his firm. And when he starts to use it to a high degree and publicizes it, then I will know lots of other people will follow because he and a firm like SkyBridge would probably be the ideal kind of people to use the JOBS Act. And if he's not using it, that tells me a lot right there. [1]



Edward Ondarza: I feel fortunate to be here with all of you. I listen to what you are saying, and I'm not being sarcastic; the intelligence and insight that you have is extremely impressive. I've been fortunate to work with some great groups in the commodity markets. I've been fortunate to work with great minds at Enron, with the Ospraie platform and others in between and I know it's very difficult to compete and differentiate with strategy and return.

It's been nice being involved in a strategy that is not correlated to any financial markets, and I can sleep at night and not worry about projected and realized growth in China and India or the dollar index. There are days now where I don't even know the price of crude oil or natural gas or how data is actualizing versus expected and the effect that could have if we were running an equity or commodity portfolio. I think that there are unique strategies out there that are popping up that are getting away from the global correlation trend occurring across all financially based asset classes. I believe there's a lot of growth and opportunity in this space.



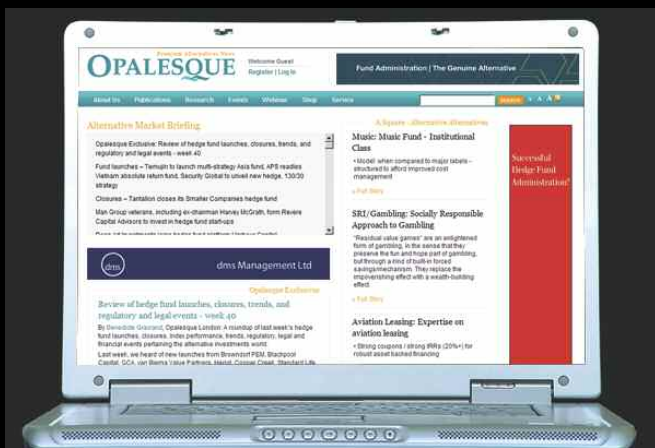
I just think it's a very exciting time. With the business we have I have the opportunity to learn something new everyday. If I'm not learning then I'm not listening, and I learned a lot here today, thank you.

[1] Coincidentally, the day after our Texas Roundtable meeting SkyBridge put out a press release titled 'SkyBridge Opens Office In South Florida and Announces it is the Title Sponsor of West Palm Beach's Bike-Share Program "SkyBike"'

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