



# Opalesque Roundtable Series '15

# NETHERLANDS

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# Editor's Note

Asset allocators have had some golden years behind them. Fixed income and equities had negative correlations to each other, so blending them together gave low volatility in client portfolios. Both asset classes had great returns in 2013 and 2014. Now correlations are moving up. The first hint of that was in May-June 2013, with the Fed tapering, and again last April when yields started to rise in Europe.

When looking back at the years 2008 and 2011, years when markets were down by more than average, those were years alternative funds had to demonstrate their value added. Looking at 2015, this could be another one of those years. Everything started quite well, but most indices have now given up their yearly gain and gone into negative territory.

## The Volatility Dilemma

Summer 2015 can potentially be seen as the first hiccup caused by rising rates. Clearers and exchanges like volatile markets as this brings more transaction opportunities for traders and investors, and volumes can double. But if volatility becomes too high, like in August, it becomes challenging for almost all investors and managers. Going into a month like that being completely long volatility is also difficult and very costly. Still, for a volatility fund like Mint Tower, August 2015 was a “textbook” month and the fund made money. But in general, most other alternative managers should be able to outperform in years like this...

## How to recognize a crowded trade

...Provided they don't get stuck with the crowd. The risk for crowdedness in markets has gone up a lot. Some of the trades that look obvious for people to take positions in become very quickly crowded, and crowded positions are actually the worst to be in, in highly volatile times, because they get unwound the fastest. So typically in areas where most of the market focuses on at such a point of time, you can also suffer the biggest pullbacks. This can be a very dangerous dynamic: things that are in the news attract so much attention, and so much positioning and very quick trading, and this can make the market more treacherous. Read on to learn how Gerlof de Vrij from Blenheim Capital tries to identify a crowded trade.

## Can risk management make markets riskier?

Everything with a high yield, high carry, high roll-down, and low volatility, can turn out to be a minefield for investors, despite the “low” risk. The Swiss Franc and then the Chinese yuan were examples where people assume they can count on a presumed base or risk level, but then that suddenly breaks. *And because those people had scaled their positions on short-term, historic volatility measures, they often get completely burned.* Read on to learn what successful managers do instead.

The Opalesque 2015 Netherlands Roundtable was sponsored by ABN AMRO Clearing and Eurex, and took place September in Amsterdam with:

1. Gerlof de Vrij, [CEO/CIO, Blenheim Capital Management BV](#)
2. Jelte de Boer, [Portfolio Manager, Optimix](#)
3. Willem de Vlugt, [Partner, Evaluation Capital Management](#)
4. Wilrik Sinia, [Partner, Mint Tower Capital Management](#)
5. Gildas LeTreut, [Head of Prime Services, ABN AMRO Clearing](#)
6. Cornelius Müller, [Institutional Sales, Eurex / Deutsche Börse](#)

The group also discussed:

- In general, the longer the investment horizon, the better investors can deal with moments when risk increases. But, why has the investment horizon become shorter and shorter for many investors?
- What factors are behind volatility spikes?
- Why do investors have less stomach for volatility today? And what are the consequences of that?
- Are there structural reasons for higher market volatility?
- Are investors happy with the recent regulatory developments?
- What is the position of Dutch pensions now towards hedge funds, as in the past they had been leaders in Europe by diversifying into alternative investment funds and hedge funds?
- How to build a successful hedge fund. When should a manager start marketing? Update on the Dutch alternative investment industry
- How Eurex' portfolio-based margining offers instant and significant savings for managers
- How Dutch wealth advisers use hedge funds and alternative investments.

Enjoy!

Matthias Knab  
Knab@Opalesque.com

## Participant Profiles



(LEFT TO RIGHT)

Wilrik F. Sinia, Cornelius Müller, Jelte de Boer, Gildas LeTreut, Gerlof de Vrij, Willem de Vlugt, Matthias Knab.

Cover photo: Amsterdam Central in golden light.

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# Introduction

**Gildas LeTreut**  
ABN AMRO group

I am head of Prime Services at ABN AMRO Clearing. ABN AMRO Clearing is a specialized prime broker and clearing bank, fully owned by ABN AMRO group. As a Prime Broker, we are focusing on certain types of strategies where we believe we bring competitive advantages to the managers. These are mostly alternative strategies such as macro, CTA, equities long/short, relative value arbitrage. We are a leading clearing provider for market-making, high frequency and proprietary trading firms. Over the last couple of years, we have been enhancing our services towards alternative funds managers in order to further diversify our client reach. We are currently servicing hedge funds throughout the value chain from execution, clearing, financing, reporting to down to cap intro.

**Willem de Vlugt**  
Evaluation Capital Management

I am partner at Evaluation Capital Management, where we run the EV Smaller Companies Fund, a \$150 million long/short equity fund with a long-bias, launched about 10 years ago. The fund is an actively managed, concentrated long/short equity portfolio, consisting of small & mid cap equities. We are focused solely on Dutch, Belgian and German companies and put a lot of emphasis on risk management. Over the last 10 years, we've managed to generate a CAGR of 9% whilst running on average a net exposure of 50%.

**Wilrik Sinia**  
Mint Tower Capital

I am a partner with Mint Tower Capital. We manage a volatility- and convertible arbitrage hedge fund. We have been in existence for five years now. We just passed the €100 million assets under management mark, and our focus is on generating absolute returns, very low-vol (we try to stay within the 2 to 5% volatility bracket). For our Institutional clients we have returned about 8% per annum.

**Cornelius Müller**  
Deutsche Börse Group

I work for Eurex Exchange, a part of Deutsche Börse Group, known mostly for our benchmark derivatives like Bund, Bobl, or the EURO STOXX 50. With Clearstream we service the hedge fund community via the Vestima fund processing platform enabling automated order routing, settlement, custody services and position reporting.

I am based in Paris and cover from there French and Dutch banks and buy side clients. My focus is on our equity option range offer, single stock futures and equity options on all important European names which are heavily traded from the Netherlands

**Gerlof de Vrij**  
Blenheim Capital Management

My name is Gerlof de Vrij from Blenheim Capital Management, B.V. We run a global macro strategy. We invest in every asset class long/short with an absolute return focus. Our strategy originated in 2006 at APG; we later spun off and have run it under the Blenheim Capital Management umbrella since 2012. The risk budget is 15%, we actually realize below 10%, and our returns are in the area of 8 to 10%.

**Jelte de Boer**  
Optimix Vermogensbeheer

I am a Portfolio Manager at Optimix Vermogensbeheer. Optimix is a wealth manager for high-net-worth individuals. We invest across the entire spectrum of equities, fixed income, but also alternatives, both passive and active. We use active managers in niche areas like high yield, emerging market debt or volatility arbitrage. Optimix was founded in 1983 and currently has € 2 billion assets under management and 35 employees. Optimix is a partnership and is fully owned by its partners and staff.

# 70

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**Williem de Vlugt:** When looking back at the years 2008 and 2011, years when markets were down by more than average, those were years alternative funds had to demonstrate their value added. *Looking at 2015, this could be another one of those years.* Everything started quite well, but most indices have now given up their yearly gain and gone into negative territory.

2013 and 2014 were pretty good years - I think even last year, almost all asset classes performed positively. As a consequence, the perception of risk has decreased. The current volatility puts that back on the agenda. This could definitely be a year when alternatives can show the difference again.

Back in 2008, our fund decreased by about 12% whereas the market more than halved. In 2011, we were down 5% with markets down some 20%. In August, we were down 1.6% whereas indices lost anywhere between 6 to 9%. For the year, that means that we are up 11%. So if things continue this way, I think 2015 is definitely another opportunity to prove ourselves as an alternative investment manager.



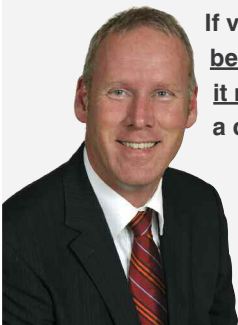
**Gerlof de Vrij:** Frankly, the markets were again very turbulent and challenging this year. It started off particularly with the mess around Greece and Europe and doubts about whether Europe would solve that issue. Now directly after that was solved, China came to the forefront of turbulence. I think we are in the midst of an emerging markets crisis, which is slow moving. And part of the reason is that emerging markets were priced for perfection in 2012 and have lost some shine since then.

The other thing is that people still anticipate the Fed at some point to move and hike rates. But, in an environment of low growth, that is not really so reassuring to everyone.

It's like a battle between liquidity and fundamentals, and liquidity in the margin is being reduced and fundamentals are not really improving. This constellation clearly offers a lot of potential for active returns, because what you see again is bonds markets that are too expensive. Many people feel that way. The major central banks are actually at the end of their easing cycle, so going forward returns will probably be muted.

Equities in the US have already gone up a lot and other markets are still not showing as much life as you would like to see. So I think there are challenges.

With our strategy we seek positive returns in every market - in fixed income, inflation, equities, credits, commodities, currencies, volatility and correlations. We look at a wide opportunity set. I see the markets as relatively uncorrelated at the moment, although there are a couple of bigger themes. Nonetheless, you can see a lot of dispersion in the markets.



If volatility becomes too high, like in August, I think it becomes challenging for almost everyone. We also believe that if you go into a month like that being completely long volatility, it is too costly an effort to do it right. So typically, most people don't have positions like that and don't play the long volatility game as a core strategy. It's a very interesting environment as there is never a dull moment.

In terms of returns, we were up around 15% mid year. Year-to-date we are now still up around 10-11% gross. So again, we believe that in terms of opportunities, there are enough there. Of course, past performance does not guarantee future results.

**Wilrik Sinia:** We trade convertible bonds, bonds and volatility, but our approach is actually very much a volatility approach. For us, August 2015 was almost more like a bull month than a bear month. We should be able to make money in such a month. This indeed we did, we were up 1.35%, making it a textbook month with regard to our expectation and risk management. For us, the problem is much more the aspect Gerlof has already referred to: it is a challenge to be long-vol most of the time, and indeed we do have a long-vol bias in our fund. Running these positions in quiet periods is very difficult.

Fundamentally, the month of August 2015 could potentially be seen as the first hiccup caused by rising rates. This may be a very relevant idea or theme for the market. But even if you assume there will be more volatility in the market, we as managers are still challenged to keep on achieving very stable and conservative returns for our clients. Anyway, this first, the big volatility move we have seen in August, emanating from rather quiet markets, has not been a difficult one.

I would say that most alternative managers should probably be outperforming in years like this. As Willem said, this is our opportunity to show that we are worth the fees, we are worth the complex organizations, set ups, and the complex instruments that we use to hedge ourselves and achieve our returns.



**Matthias Knab**

As an investor, how do you handle the situation?

**Jelte de Boer:** As asset allocators we have had some golden years behind us. Fixed income and equities had negative correlations to each other, so blending them together gave low volatility in client portfolios. Both asset classes had great returns in 2013 and 2014. Now correlations are moving up. The first hint of that was in May-June 2013, with the Fed tapering, and again last April when yields started to rise in Europe. So as asset allocators who construct portfolios from various assets, our job has gotten tougher.

We have started to look more and more at alternatives, especially the alternatives that have the characteristics of fixed income with a volatility of 3-4% and low correlation to equities. We have to find alternatives as expected returns for both fixed income and equities have come down a lot.

In our general outlook, we are quite conservative, or even somewhat negative. We see the global growth has been highly affected by China and US shale production, both of which are decelerating now. Earnings growth in the US has turned negative and earnings expectations for emerging markets and Europe are coming down. In light of this, equity valuations are not that attractive.

In the current market environment there is a lot of talk about *'there is no alternative'*. We are not so sure about that. We think that cash is a rather good alternative for capital preservation, which is important for our clients.

In our asset allocation we are moving a little bit away from traditional assets and looking more to alternatives. One example of that would be the fund of Wilrik Sinia, which we are invested in. We are looking for low correlation to the traditional assets, which the portfolio always consists of, and low volatility.







**ABN·AMRO** Clearing



## **Save the Date Wednesday 17 February**

### **Amsterdam Investor Forum 2016**

09:00 – 17:00 hrs

## **The 5th Amsterdam Investor Forum**

### **A Landmark Event for the Alternative Investment Industry in the Netherlands**

ABN AMRO Clearing is pleased to announce that the 5th annual Amsterdam Investor Forum will be held in Amsterdam on Wednesday 17th February 2016. The AIF has established itself as a leading forum and meeting place for Institutional Investors and Alternative Investment Managers.

The 2016 edition and agenda will reflect the opportunities and challenges of the alternative investment industry in the current market environment. The conference also provides an excellent opportunity to network with peers and other market participants as we gather a rich diversity of international alternative investors and managers.

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**Gildas LeTreut:** I would like to react on your statements, Jelte and Gerlof. You question whether high volatility is manageable, and if it is a golden year? I would respond yes to both. Indeed, Clearers prefer volatile markets as this brings more transaction opportunities for traders and investors. As a clearer on regulated exchanges, we are not only a risk management but also a processing engine for our clients. Volatility on markets creates price fluctuations that in turn creates trading opportunities for some fund managers and new hedged trades for others. In both cases, it generates high volumes that need to be processed and allow us to demonstrate our operational efficiency.

In the last few months, and especially in August, we reached record levels without compromising our systems or client reporting. What we learn is that, at every new volume peak, we have to invest and prepare for even higher capacity.

As a prime broker, we need to adapt and anticipate. Is it manageable? Yes, and we need to always expect and be prepared for higher volumes all the time. This is highly important for our clients to be able to capture opportunities without being constrained during high volatility periods.

However, during volatility spikes, handling high volumes is not the only service, as a Prime Broker you need to support your clients with the right level of financing, which, in current regulatory environment, is getting more and more challenging.



**Matthias Knab**

How do your clients deal with the spiked volatility?

**Gildas LeTreut:** We are specialized in servicing quant and arbitrage-like strategies. This is in our DNA, and has been in the DNA of the Dutch market for years. Most of our clients deal in market making, Macro/CTA and arbitrage, including volatility arbitrage. So they like high-vol environments where they can benefit from price inefficiencies and larger spreads. For our clients, and thus for ABN AMRO Clearing, high-vol months like August are very good. Our aim is to help our clients be competitive, and rely on our operational and risk management expertise to enhance their trading strategies' performance.



**Cornelius Müller:** At Eurex, we do have the same mindset: for us, volatility is beneficial. Our daily volumes went up twice the amount of what we used to see over the last month.

It is important that we, as a service provider, deliver a fair and transparent market in these kind of situations where you see major indexes dropping 7% within a day, or you fear, like in the US, a flash crash situation. This would not happen the same way on Eurex as we have a number of safeguards established.

Those safeguards include a volatility interruption: if you have a high deviation from the last traded price, the single product would stop trading, the cause of the deviation checked by experts and then go into an auction to go back to continuous trading. By analyzing the situation we ensure that the situation does not stem from an algorithm gone crazy or human error in order to provide a fair market.

Also, currently, we offer not only our classic products such as the indexes and equities to profit from investment opportunities. In addition, if you want to play volatility, we have the VSTOXX futures and options, for trading implied-volatility in the EURO STOXX, and more recently a new variance futures. Through those products, you trade realized volatility like a variance swap but centrally cleared.



As Wilrik said, the perception of risk has changed. After a bull run for six, seven years, people already started to become a little nervous earlier this year. But then August happened – those things always happen in an unprecedented way. So the question is how is risk viewed today by the market, and also by your end investors? What has this August changed?

**Gerlof de Vrij:** If you talk about risk, you tend to look at things such as volatility measures. If you check the volatility measures, you see that until recently, volatility in the commodity, equity, bond and currency markets was very low. But if you speak to the market participants, they tend to have a different perception.

The pattern in volatility is that it is relatively moderate over longer timeframes, but then you have these sudden spikes. And this spiky behavior, even intraday, is for many people difficult to read.

In our view, there are a couple of factors behind volatility spikes. One is that prices may be driven much more by liquidity than by the underlying fundamentals, so valuations feel stretched.

The other thing is that people are quicker to take off positions, so risk management itself feeds clearly into the riskiness of the markets. That means the more people are fearful and take off their positions; the more there is a pro-cyclical element in the markets.

Furthermore, a part of the market is manipulated; people have positions because they feel that the Fed or something else will give them insurance and liquidity for the positions that they are holding. With all the signals out there at the moment, it's dangerous to believe that.

Systems may also play a role here. More fundamental investors blame the systems, algo's, high speed trading, etc. Other people blame, for instance, the absence of prop desks and banks that could provide liquidity, but are not allowed anymore. It's difficult to say what it is.

But one thing that has become rather obvious is that *people have less stomach for volatility*. As Jelte has said, people look for alternatives, for bonds, for low volatility profiles, etc. And in order to manage portfolios with low volatility, you need to have very strict risk controls, which again feed into very fast unwinding of positions.

Another thing that we have seen is tendencies for crowdedness in markets. Some of the trades that look obvious for people to take positions in become very quickly crowded, and crowded positions are actually the worst to be in, in highly volatile times, because they get unwound the fastest.

So typically in areas where most of the market focuses on at such a point of time, you can also suffer the biggest pullbacks. This can be a very dangerous dynamic: things that are in the news attract so much attention, and so much positioning and very quick trading, and this can make the market more treacherous actually.

In our strategy, we really try to avoid things like that. We are not interested loading up on crowded positions or have positions where you see that many other people are massively short or massive long.

Another major market risk comes from things we have seen earlier this year with the Swiss Franc and now with the Chinese currency, where people assume they can count on a presumed base or risk level, but then that suddenly breaks. And *because those people had scaled their positions on short-term, historic volatility measures, they often get completely burned*.

But let me also make clear that it's not necessarily one factor that's driving risk, but there are several factors that feed into market volatility. However, all in all, looking at long-term measures, I wouldn't say the market is much more volatile right now, but people surely perceive it to be much more volatile than it used to be.



**Gerlof de Vrij:** Sometimes you actually can see it or reason it from the behavior in the markets. For example, the spikiness of prices tells you a lot, and also clearly a lot of these things are driven by fundamentals. So if you see fundamental information that should translate into specific price action and it doesn't or it does actually the opposite, then that could be a strong indication.

There are also measures of positioning or flow information that is available, for instance in currencies. But indeed, it's hard to say when or what is crowded.

*What people in markets tend to go after are things with a high yield, high carry, high roll-down, and low volatility, and those are the most dangerous areas. As I mentioned, you could also see this in the Chinese FX moves most recently. When ranked by carry to volatility, the Yuan was the best currency, and then when suddenly things change, everybody pulls back. The positions that have the highest carry to volatility ratio are the darlings of many people; however, they are the most dangerous because at some point in time they also tend to correct.*



**Wilrik Sinia:** Most of our clients are high net-worth individuals, for example entrepreneurs who have sold their company and who now have to invest their money. They typically are in their 40s to 60s, and have a serious commitment to managing their money.

So from my observation – and this includes not only those private individuals but also professionals from small pension funds – these investors have a very astute perception of risk and opportunities. In a way, you could compare them to trained Marines who have been in Vietnam and Korea, and they know what war is like. So when it comes to volatility and market risk, many of them are already prepared for it. They have the reserves. They know what they can handle, they move around in their trades, they are flexible and even tactical.

Reactions in a way are very different from what they were like. Volatility tends to not spike that fast in prices. What happens a lot these days is that directly after an event volatility goes down, because people say, “okay, we have had the event, so probably nothing is going to happen anymore,” and often they are right.

The Swiss Franc devaluation was an exception, because at that time people were closing positions at the wrong price. They were down 30-40%, and were forced to close their trades. That's the sort of classical panic crash.

But apart from that, what we are seeing up until now in the markets is a lot of volatility and uncertainty, but I think it's not yet at the level where people are panicking or saying, “This is the abyss.”

As I mentioned, I think we can see that behavior on many levels, not just with professionals but also private investors. In general they tend to be quite okay. They may not be that happy with returns or with what's happening in general, but, at least until now, they also don't have the same problems they were having in other crises, for example in 2008.





**Williem de Vlugt:** Many of our clients are high net-worth individuals and families with a long-term investment horizon. And like Wilrik, I also don't see any panic at the moment. The longer the horizon, the better they can deal with moments when risk increases. However, in general one can say that after a relatively long period of favorable markets there is less attention to the risk-return aspect. So if the current market volatility continues, investors will again look at returns in perspective to risk.

But I would like to add that we see the behavior of market participants has also changed over the years. When I started my career, traditional fund manager had a three to five year investment horizon. Today, while on paper they may still have the same time horizon, in practice it has become more short-term. Main stream fund managers, who still account for a reasonable flow and activity in the market, get in and out of positions much faster, and that obviously has impact on the overall market volatility.

The emergence of high frequency traders has also impacted volumes on the market, I believe they are currently responsible for a significant part of the volume. Perhaps volatility is structurally higher now.



**Gildas LeTreut**

Do you also agree with Gerlof's comments that there could be a liquidity risk in the market, and that also the short-term view on investments can contribute to such a global liquidity crisis or market turmoil?

**Williem de Vlugt:** Central banks have played a major role in pushing up valuations. Valuations have been stretched. When you do proper fundamental analysis of companies and analyze what exactly does the current value imply – what kind of growth rates or margins, etc. – you do notice that things are running ahead of themselves.



The problem is you don't know how long it can continue that way. But we know that when things move the other way, then it can go very fast.

**Jelte de Boer:** I agree that there has been a shortening of investment horizons. You'll always see this when things are going down.

There is also another factor at play. High net-worth individuals typically have their wealth invested with different wealth managers. Clients compare their managers results to each other, looking at calendar year returns. This leads to shorter time horizons. Looking at calendar year returns was already quite common with hedge funds, but we see this more and more with traditional investment managers. The focus has moved towards shorter-term returns, and investment horizons get even shorter when returns go negative.



**Matthias Knab**

Let's take a look at the alternative investment industry in the Netherlands. How has it developed over the last couple of years?

**Williem de Vlugt:** I looked up some numbers. In 2011, there were around 30 Dutch hedge funds and at the moment that's pretty much unchanged. A few have been replaced by new initiatives.



A lot of us have been busy with the implementation of the AIFMD, which I believe is a good thing, But it also makes it more difficult to start a fund. That's definitely a consequence from increased regulation.

**Gildas LeTreut:** Regulation is definitely changing the landscape. In last year's Roundtable we talked in depth about how AIFMD was affecting the industry. Today we can also look at how bank regulation, namely Basel III / CRD IV is indirectly affecting the dynamics for investment managers.

Willem stated the number of Dutch hedge funds has remained steady at 30. However I do feel that there was more innovation and dynamism in the past. We had far more start-up funds in the past, such as new CTAs, spin-offs of established fund managers or proprietary trading firms. It seems to me that with current regulatory environment and also the general industry landscape, it has become much tougher to start a hedge fund.

From a prime brokerage perspective, CRD IV is definitely affecting the way banks have to look at their balance sheet, the financing they provide to clients and the return on equity. You can imagine that it is not easy for a start-up hedge fund to find a good partner that is able to provide both product & market coverage but also financing without a fair amount of initial asset under management.

As a consequence of the increased cost of capital versus the return of certain activities, some banks have stopped providing some products and services – OTC clearing for example. We have seen again this year in the press multiple articles about prime brokers that are parting ways with their clients or focusing only on large asset management firms.

So for us at ABN AMRO this gives us a momentum and also a challenge. It is a good momentum because there is a need for prime brokers that already have complete product & market coverage to service alternative fund managers. At the same time, you need to be very focused and specialized on certain strategies and cannot take it all. You need to decide what your focus point is and where you can add value to make your clients more competitive. Certain strategies that are balance sheet intensive will struggle to find Prime Brokers and will inevitably face higher costs.

So given all of this, you could argue that it's a good thing that the number of Dutch hedge funds has not diminished, but with increased regulation, including those directed at banks, it has made it more difficult to grow and to create dynamism in the industry.



**Matthias Knab**

Do you need a minimum asset size to take on a client?

**Gildas LeTreut:** Well, it's not really all about asset under management, but also factors like the velocity of the trading and need for financing. New capital requirements are indirectly affecting all alternative strategies even those without leverage, for example CTA trend following. Initial margin at CCPs derived from trading futures on an exchange have an impact on the Prime Broker's balance sheet. So what is important in this new environment is the overall return on equity of the client. Therefore it's not only a question of asset under management, it's more the holistic view of what will be the return of the clients – cleared volumes, execution fees, additional services... - compared to the balance sheet consumption.



**Jelte de Boer:** As investors, I have to say that we are quite happy with some regulatory changes going on. We embrace the growth of UCITS alternative investment funds. I do think that the regulatory framework here contributes that more-and-more hedge funds and UCITS funds are becoming more aware of their liquidity profile, their cost profile, the use of leverage, and transparency. In the old days, investors often had issues with hedge funds regarding those issues, but now the standards have been getting better and better, and that for us is a good trend.

Of course, it has become tougher to start a hedge fund, but still, I'd say that the good managers and the good firms are still making it. When you look back to 2005-2006, it was very easy for everyone to start hedge fund and collect 2 and 20 fees. I think it's good that those days are gone, because today, you really have to do something and prove yourself in order to earn those fees. So, a lot of crappy hedge funds are gone and probably will never see the light again. Maybe some will still find a way, but, as I said, for investors things have turned for the better.



**Matthias Knab**

The Netherlands have a very well developed pension system, and historically some of the largest pensions here were leaders when it came to diversifying into alternative investment funds and hedge funds. Most recently, also some of those pensions have pulled out of hedge funds, as have some of high profile US pensions.

On the other hand, the most recent reports say that US pensions in aggregate are putting record levels of money into hedge funds as they are desperate for returns, and maybe also for some asset protection. Do you have any comments on those developments?

**Gerlof de Vrij:** Correct, over the past years there has been a huge debate in the Netherlands about alternative investments and especially about hedge funds and private equity. There has been a lot of discussion around fees that go to managers. I feel that most pension funds are now much more afraid of headlines in the newspaper which say that most of the fees they pay are actually going to the hedge funds or private equity managers.

So while until 2008 the Dutch pension fund industry was really one of the worldwide examples of being creative and finding models to construct new productive asset classes and find new investments, the climate now has moved towards defense. Also here, some of those changes have at least also partly been driven by the regulator who actually asks the Board of Trustees to understand everything what's happening in the asset mix. But, with the 2008 experience in the back of their minds, many of the Board of Trustee members felt very uncomfortable with that.

By now the discussion has become only a bit more balanced, but you can still hear comments on TV that are setting the tone quite negatively on these types of investments.

At Blenheim, our client base and therefore also our scope is much more global. We are not really looking or making special efforts to win some of the local institutions as clients, and that's what I hear from other people as well. In my conversations with other external hedge funds or asset managers there seems to be a consensus that there's quite a serious stand-still in the Netherlands regarding the search for alternative managers. Meanwhile, the managers here are more or less holding on to the assets that they manage, but most find it also very difficult to expand.

The climate in the Netherlands will probably only change when the funding ratios get beyond 120-125, because then there is more room to add alternatives and diversify. At the same time, I would think that all those institutions feel that their bond allocation will not provide sufficient returns, so from this side they need to do something. But, at least for now, regulation, public sentiment, publicity pressure, etc., is holding everybody back.





**Wilrik Sinia:** I think there are effects or unintended consequences of the regulation that was put in place after the crisis that people aren't really aware of. I believe one of the problems of pension funds, but also for wealth managers and even for individuals, is the level of knowledge you are now required to have to buy a product. If you buy a Mercedes, nobody expects you to understand in detail how the engine or the latest fuel saving technology works, nobody expects that, not even from the salesman. Rather, we just expect that somebody somewhere did a good job.

In contrast, in finance we now got to a situation, because of all the things that went wrong and also the frauds we had, where we expect everyone to know everything at every level. And it looks like that's a huge drawback for pension funds. Of course, someone has to do a deep due diligence, also at a technical level, to understand the risks, but can you really expect everyone to understand everything? Add to that what Gerlof was saying about the negative public sentiment in the Netherlands, I think that the industry is in the middle of the seven lean years, and that in fact we still have a few of those ahead of us.

Mint Tower is in the process of getting an AIFMD license, and when I look at the level of detail and organization that the AFM expects us to have, I am quite certain that the way we started, which was really like four guys in a garage, is not going to happen anymore. That could mean that the number of 30 hedge funds we have now in the Netherlands may go down to 20 or even less medium size firms, the small ones and newer ones won't be there anymore. I think that is a negative development for the industry and in the end for investors, as their choices will become more and more limited.

I think the markets can find new solutions, feeder type funds or umbrella funds or whatever. At the moment however, there is not really a new way to efficiently give some experienced people some money and grow that into a substantial company.

On the other side, and Jelte has referred to this before as well, AIFMD or this general change in perspective could also be a boost for the industry, because in the long run at some point people will say, "Okay, we now actually know that these companies are run properly, so from an operational standpoint they are safe for a pension fund or for an individual to invest in." We are certainly not there yet, but that's where regulation is moving.

The coming years, the funds will really have to fight hard, explain, dig up all the numbers, make sure everything is right and good – and then while delivering some attractive returns, the clients will come across. To get a market where you have the wind in your sails will probably take a number of years, especially for us here in the Netherlands.



#### Matthias Knab

This has become a global development that is has become much harder to set up an alternative investment management firm. But all of you managers here at the Roundtable have made it. Wilrik already shared with us how they started out, can the others maybe tell us how you set up and were able to succeed and grow your company?

**Gerlof de Vrij:** We actually built our strategy at APG where I got the opportunity to build a global macro GTAA fund with the talent and resources from APG. We managed to build a well-diversified strategy. When I left APG with my whole team, we were already nine people, and we added more. Once at Blenheim, we got a seed investment of USD 500 million. That enabled us to build our business in an institutional way right from the beginning.



But that's clearly a different path than having to build your firm from scratch. If you want to do that properly, you need enough capital and the right people behind you. Next, you clearly have to have an established strategy with a track record, otherwise it will be pretty difficult. Particularly here in the Netherlands, others have had the chance to spin out from the bigger asset management firms or, like we, from a pension fund to join organizations who extended the chance to create a new company, but all in all it's rare that this happens.

**Wilrik Sinia:** When I think about how we got to where we are now, breaking the Euro 100m asset threshold, one of the things that come to my mind is the fact that we have been together as a team more or less since the '90s. We've been trading at the ABN AMRO prop desk, and I believe the first of us got together in 1997. So we have been working together for a long time. We also had the same ideas how we wanted to set up the fund, how to generate performance, and how this would translate into an investable product.

But coming from a prop desk, you do not have a public track record, so there is no history and you need to sort of prove yourself again. Luckily we were able to take the time to prove ourselves in that transition because we were four partners. That means we built the firm with a really broad set of skills. If, for example, if one would like to set up such a company by oneself, this would prove to be almost impossible because of the multitude of aspects connected with it.

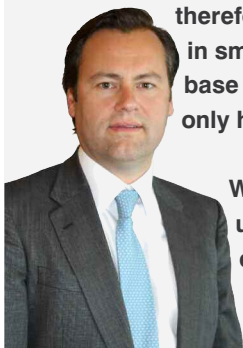
Starting off with a larger team was certainly a big plus. How did we get to €100m in assets? You need to show people what you are going to do, and then actually deliver it. It turns out that it is quite a challenge, especially for private investors, to get the right mix of alternative investments. Institutional investors, like a pension fund, can take ten different good alternatives and end up with a low volatility portfolio, but obviously that's very hard for an individual.

So that was where we really got going. We were able to demonstrate that our product on itself is a good addition to a private portfolio. We began talking to wealth managers, as for them our strategy is a very good addition as well, and we were very lucky to start working with Optimix, which was very helpful. Once we knew their approach and understood the specific needs of their clients, we were able to sort of amend certain aspects of our product. We now have a product which is very attractive for wealth managers, which has contributed to our growth.

So nowadays in finance, products need time to mature. Asset managers need to have patience because it takes time before you actually have a sellable product.



**Williem de Vlugt:** It all starts with the team, the three of us at EValuation Capital came from Kempen & Co., and therefore have a similar background and way of analyzing companies. We have a clear strategy of investing in small & mid caps with a geographical focus. And finally we were very fortunate to attract an investor base at the start that believed in us. And that is paramount because when you want to set up a fund, you only have a plan but no track record yet.



We then took our time to build up that track record, whilst staying focused on managing the fund. For us it was really after four years that we started to see things come to us and we have grown steadily ever since. I believe that it is very important to have a proposition that is different. You need to differentiate yourself and that's when investors take notice.

**Gildas LeTreut**

So for your firm the acceleration point was when your firm was four years old?

**Williem de Vlugt:** Yes, I remember that exactly four years after we started, interest started coming in. At that time and with \$50m were large enough and with track record for investors to make allocations. Another point is when you then reach say \$100m, then performance starts playing a major role in the growth of your assets.



**Jelte de Boer:** I agree with the previous comments. For us as investors we need to see that a manager is focused on what they are doing when building a track record, that they are doing it well. I remember I had contact with Mint Tower in 2011 when they just started their business. At that time they had no track record in managing a fixed amount of money which is different from having access to a potentially unlimited pool of prop desk money. It was important for me being able to watch them execute their strategy in a consistent manner. I also agree that when you continue building your track record that way, then after three or four years will be the turning point and money gets your way, if you've done the things right.



**Matthias Knab**

Can you tell us a bit more how you screen funds for your investments, what are you looking for?

**Jelte de Boer:** We really need to understand how the manager generates his returns. We have to analyze whether there might be hidden betas in the portfolio that we don't need. We don't need betas which we already have exposure to in the other parts of our client portfolio. So we are really looking for consistent alpha over time, rather than just having been lucky with some trades which made the track record. We are looking for consistency in the process and the team. The alignment of interest with our clients is important as well. It's not just about performance fees but also how much of the managers' and staff net worth is invested with the fund.



**Matthias Knab**

Who of you is working on new products and services?

**Cornelius Mueller:** We currently work on a number of projects. But before we go there, let me also tell you quickly that I love the Netherlands, because at least you actually have 30 hedge funds, which is I think a good situation. There is a quite impressive entrepreneurial spirit here with people like you – Gerlof, Wilrik and Willem – coming out of large organizations and starting off on their own.

At Eurex we have strong relationships with our exchange participants and for many projects also a partnership-like relationship to develop a certain market. Over the last years we also started out building stronger ties with the buy side and hedge funds for topics such as centrally cleared swaps. Furthermore, we started offering products tailor made for the buy side like our MSCI futures and option range which is gaining more and more traction.

You talked about regulation which is certainly one of the fears or the threats around, because many issues are not clarified and that's also where we try to speed up and give people more certainty and clarity about the current discussion and possible impacts. We organize workshops and try to get the community also together in order to discuss these topics and take away some of these fears.



The regulation is also reflected in our product offering. For example, on the clearing side our OTC IRS facility, for which large funds are progressively signing up to. The cleared notionals are rising progressively. On the other side you have got the often discussed futurization of swaps going on for certain products.

We have a futurized OTC variance swap which you can trade on exchange. It replicates the profile of a swap but is however centrally cleared and has an order book.



Furthermore, we've got certain other initiatives on the way, for example the futurization of total return swaps. I also believe that some of you may have interest for dividend futures range, where we created a whole new asset class which is quite liquid and on-exchange. We offer dividend futures on the EURO STOXX index' dividends and single stock dividend products.

So in the end we've got a whole portfolio of over 2,000 products, covering for single names futures and options from all of Europe, being a truly European exchange. Most recently we have seen foremost or STOXX sector futures reaching record after record in liquidity and also our MSCI futures on Europe and world indexes being picked up and traded by asset managers.

**Gerlof de Vrij:** Also as an asset manager you need to continuously evolve. In our macro strategy, we have three sub-strategies. We run discretionary macro on a 3-12 month horizon, mean reversion and valuation on a working horizon of 3 years and we have a diversified systematic portfolio, currently consisting of 15 different models. We allocate the risk budget over these diversifying approaches, thereby exploiting the full breadth of global macro.

The products that you mentioned, several of them are already for many years in our portfolio like dividend futures dividend swaps, volatility or correlation products. We trade in inflation in the whole range, in corporate and sovereign CDS indices, and we trade frontier currencies.

If we see something that is interesting and is diversifying from a macro perspective, we are looking to add it to the portfolio. And then we have a whole risk management and risk allocation layer on top.

We have also developed a dynamic asset allocation approach which is like taking one step further than risk parity. There we are able to add things like valuation filters and momentum elements, resulting in a wide diversification over different very liquid asset classes.



**Gildas LeTreut:** We clear about 85 markets, and obviously the markets are very innovative, so we have to follow almost all new products launched by the exchanges. Our clients are at the forefront of innovation and strive for new trading opportunities. This provides continuous innovation opportunities and efforts for ABN AMRO Clearing. Obviously the regulation also takes up a large part of our projects, not only because of Basel III but also MiFID II. Regulations are changing the landscape, so we cannot just focus on pure innovation but also on adapting to a new environment.

Aside from innovation, we very much focused on enhancing the level of service provided to our hedge funds clients to help them adapt to this changing landscape. For example the move from off-shore funds into UCITS or AIFMD structures have a huge impact on the level of service delivered by Prime Brokers. Enhancing the relationship and operational efficiency with depository banks and fund administrators is of high importance. So we have to constantly adapt to the new needs of a regulatory framework, and work with more partners of the funds.

Funds requirements vary extensively in terms of executions, access to market, algos, reporting ... so I cannot point out a specific product innovation, but it's a constant effort to adapt and innovate.



**Matthias Knab**

I was wondering, Jelte how active are you or other investors with your strategy allocations? There are generally two approaches; one is having a more or less constant risk weighted allocation of your assets to the different strategies, or you try to time them. I am curious how you do it?

**Jelte de Boer:** We are quite active in asset location and moving it around quite a lot. For example, this year the equity exposure for our balanced portfolio has moved between 60% and 30%, where it is right now. For us to be able to move the portfolios around, we require liquid strategies. This also relates to the alternative investments within our client portfolios.

I think the days with hedge funds having quarterly liquidity, notice periods of 90 days or 30 days, those are behind us. The hedge funds we invest in have at least monthly liquidity and no notice periods. Liquidity is important for us and for the way we manage the portfolios.



**Matthias Knab**

And there are of course some strategies that can't match those liquidity requirements, so you probably leave them out?

**Jelte de Boer:** Correct, we would not invest in those. We think the investment universe is quite broad for liquid strategies, and we stick to that.



And also, having that liquidity profile fits our type of clients, which are entrepreneurs who have sold their business or get dividends from their business. They might see new business opportunities and want use the wealth we have invested for them to start new ventures or build a factory. Therefore our role is to manage liquid investments so they can use their wealth whenever they need it somewhere else.

This of course means that we just don't invest in asset classes like private equity or distressed debt, and focus on other investments where we still can make good returns.

**Gildas LeTreut**

So you are also looking at liquid alternatives?

**Jelte de Boer**

Yes we do.

**Gildas LeTreut**

Is it mostly UCITS you're interested in?

**Jelte de Boer:** When it comes to the fund structure, it should be structured well. So we don't look at only UCITS, we look at other fund structures as well. However, the alternative fund should really do something different than traditional assets. We see that there are a lot of new alternative UCITS funds being launched. A lot of those new products are just old investment strategies in a new package and mostly at higher costs. So we are not really fond of those type of products, but if it's something really new and complementary to our portfolio, we will have a look at it.



**Gildas LeTreut**

On average, what percentage of the AUM do you allocate to alternatives?

**Jelte de Boer**

Right now it's about 10%. Our allocations to alternatives have been growing, it's now more than it was three years ago.

**Matthias Knab**

All of you have set up successful companies and reached a critical size. Where are you now looking for further growth? Or how in general can the Dutch alternative investment management industry continue to grow?

**Williem de Vlugt:** We will stick to our current client base, which is high net worth individuals, families and family offices. We will probably not try to engage actively with the large institutions, not only because of our current size but also because of our ambitions. Considering our strategy we feel we should be soft closing around \$175m and hard closing at \$250m. That size allows us to keep our focus and to execute our strategy the same way as we do now.



So we don't aim to become too large and in fact we prefer to err on keeping the fund smaller rather than bigger.

**Gerlof de Vrij:** You also asked how can the Dutch investment industry grow? I don't know. A lot of asset management companies from the bigger banks have disappeared or they have been taken over. I also don't think that the asset base of our pension fund industry will be growing much, because pensions will move away from defined benefit and much more into defined contribution products, and I am not entirely sure what that will bring.

So far the recent trend has been that asset management is shifting abroad. I think we allocate a lot of our savings to asset managers abroad instead of domestically. And although some of the pension funds manage quite a bit of their money internally, typically it's still in more liquid areas and not so much in the alternatives.

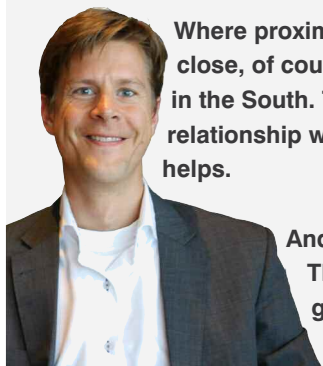
There is a certain challenge to run an alternative business in The Netherlands, because so much of our industry is concentrated in other parts of the world, places like London, New York. Of course, there are other places, but players there typically remain relatively small.



**Matthias Knab**

I agree, but that's also the opportunity to create products that are different from those investors find in the larger investment centers. Jelte, is proximity a plus for you? When you invest with or do due diligence on a local manager, that is probably easier as if he would be in New York, no?

**Jelte de Boer:** The criteria is that I can meet with them, but that doesn't necessarily mean they have to be close. We can also travel to them, and we do. We like to see the manager at least once a year; we travel to them or they travel to us. Proximity is not a criteria although there are great managers in The Netherlands and we do invest with them.



Where proximity is more important is when it comes to our own client base. There it's really important to be close, of course. We have just opened two representative offices; one in the North of the country and one in the South. These parts of the country have slightly different culture, so being local creates a better relationship with the clients. The relationship manager talks their language, has the same culture, and that helps.

And for us at Optimix, we see a lot of opportunities. We are still a small private wealth manager in The Netherlands, with a small market share compared to the overall market, so we see a lot of growth potential.

**Gildas LeTreut:** I think the investor base remains very much in the same and known locations: Switzerland with still substantial investment from wealth managers and family offices, and to a certain extent also the US. Raising assets is getting tougher every year. When you want to raise assets as an emerging manager, you need to count on your “families and friends”, which means your own assets and your network that believes in your capacity to succeed. Then marketing efforts can kick-off. Proximity to high net-worth, is a factor of success, but you need to be on the road to also make yourself known in order to be able to attract more investors.

A recent Preqin survey showed that investors were screening about 150 funds per year for three investments or allocations. The survey also demonstrated the means by which investors were identifying managers: external consultants, active reference, cap intro...and active search on database. I believe that even with performance, active marketing, cap intro, listing and visibility in relevant databases are highly important for emerging managers to raise awareness of potential investors.



**Jelte de Boer:** I agree with your first observation that from 150 funds only three or so get an allocation, but I don't agree marketing is important for hedge funds.

Hedge fund manager should do the things they need to do, and that for me means managing their money and stick to their investment process. If they do that very well, then we will find them. Of course, hedge funds should be visible on databases, etc., but marketing shouldn't be the big business driver for a hedge fund business.



**Williem de Vlugt:** I agree. Looking at our experience, I am glad we did not do many marketing initiatives. In order to allocate your time efficiently you have to set your priorities clearly. Especially in the first couple of years, your priority should be just on the fund. If you continue developing a good track record, then at a certain moment things will start coming your way.

As a start up you will anyway mostly hear that the fund is too small and/or there is not enough track record. So best to spend that time on managing the fund.



**Gildas LeTreut**

Do you have a recommendation for those start up managers, at which point in time should they start actively marketing and put resources into marketing?

**Willem de Vlugt**

After three or four years, something like that.

**Jelte de Boer**

After having built a solid track record.



**Wilrik Sinia:** The problem with marketing is that you need to have a product, and in the financial world a product exists as soon as that offering is actually trustworthy – that it has some quality and some age. For many people it is very hard to see through the marketing documents to things like for example previous experience, previous track record, and issues like that. So from that perspective doing traditional marketing may not be efficient if you try to do it too early.

But that does not mean you shouldn't be doing anything. Obviously, anything that helps getting the word out and getting your name across is very valuable, but spending money and resources on it when you have a tight budget and still are a small firm, you have to make choices.



So, in general, the quality of the product must be clear to an investor. I would recommend to spend the first two years just concentrating on the quality of the product and making sure that everything fits, and then start going out. However, it is understandable if a manager wants to go out earlier and wants to grow more quickly, and in that case he has to make sure to keep a reasonable balance. In general, after three or four years, marketing works much better. Any money invested in marketing has a better return.

**Gerlof de Vrij:** Blenheim Capital Management isn't very active in terms of marketing, although we have started to do a bit more. As an organization, Blenheim has existed for more than 25 years. It has a well-established institutional network around the world. We speak to the people that we like to speak to, but we haven't had our numbers in databases, for example. People know where to find us, just through reputation or from existing contacts.

We have an institutional focus. That means we like to talk to the well-developed institutions worldwide, which is really the group that would be the best potential client for what we do.

The ideal client is clearly a long-term investor, who understands what we do, who feels comfortable with what we do. Actually, the best client would be an investor that would be sizable and where we would be able to build a strategic relationship with.

For instance, our knowledge expands quite a bit beyond our strategy. My team also has been active in asset allocation, in dynamic steering of asset mixes or in overlay, so for us those discussions are very interesting.

When people invest with us, we get into active and deep discussions around, for instance, of what to do about inflation hedging, how to best rebalance assets, what's the role of currencies in your asset mix. So, many of the markets we trade are quite relevant for investors. Having worked in large pension funds before and having been very active in ALM studies, strategic and tactical asset allocation, and by being active in global markets every day, people appreciate what we can bring to the table.

So in that respect, my favorite clients would be relatively large, sticky and knowledgeable. In addition, being interested to build a strategic relationship helps to build win-win situations. We are fortunate that our seed investor really fits that profile, as well as several of the other clients, and also a number of prospective clients that we speak to.



#### **Gildas LeTreut**

Jelte mentioned the impact of regulations on the industry, including impacts on capital and hence on prime brokers' ability to finance fund managers. As a number of counterparts have withdrawn from some Prime services in the last few months, do you already experience an impact in the Netherlands? Do you anticipate a lesser choice of service providers, and an increased cost of trading?

**Gerlof de Vrij:** Actually it's the opposite. There are a couple of developments that have been very good, like the central clearing of OTC products. So actually things like margin to equity that we have to post have gone down for that reason.



We have several prime brokers and other counterparties and we steer on the basis of margin to equity. Since the start, our margin to equity actually went down because of efficiency in terms of netting. Moving more toward cleared OTC is actually beneficial for us. It creates more transparency and we have been at the forefront of that. In most of those processes we have been an early mover. Of course when it comes to regulation, you never know exactly what happens next, but when it comes to our trading, we only enter trades if they make sense from a cost perspective and from a capital perspective.

But, again, you never know what's going to happen. If they come up with things like transaction tax, etc., that could really change the liquidity of markets.

**Matthias Knab**

I know that this is also something Eurex also has been fighting against...

**Cornelius Müller:** Against the transaction tax, correct. It is something I would personally not see as beneficial to the market place.

The netting effects in between products Gerlof talked about is an extremely important topic to us. With our portfolio-based margin method we have our offer out where you can profit from netting effects. With OTC IRS, you net for example a listed Bund future versus a corresponding swap. But also purely on the listed side, you also have significant effects netting an index future versus a single name future which is a component of the index.

Looking at the current option market structure in Europe, the netting effects become very interesting. Currently, we have a split in liquidity for Dutch options between three markets. With the arrival of TOM, Euronext has lost a significant market share to them and also Eurex could gain an important part over the past years. But there is not only the arrival of an MTF such as TOM but a change of market structure also happens in other countries such as Spain or Italy, where Eurex has got a full offer. We gained over the past years a market share of 20 to 30% against the local market place. In France we even have got a neat split market, 50% traded on Euronext, 50% on Eurex and the same trend is visible in Belgium.

I personally suspect it has not only to do with the associated trading costs but also with the cost of capital and margin requirements, because we allow with our portfolio-based margining significant savings. Like this you can offset, for example, a Spanish equity option, which is component of a certain index, in order to benefit from netting effects. Trading all your different option countries segments at one exchange makes a lot of sense.

That's why I think that in the long run liquidity will more and more center at one exchange. I believe we are very well-positioned at Eurex when it comes to equity options and certain indexes, because we have a one stop shop offer for the whole of Europe where you can benefit from netting effects in a way you can't at certain local exchanges.



**Wilrik Sinia:** From my perspective as a manager, we are affected on two levels. One is automation – the capabilities of the large service providers are improving, which is positive – but you also see things like year-end liquidity prices where you obviously have strains in the market and you have regulation and some discussions with regulators which are clearly potentially very negative. So there is this dark cloud.



At the moment, the situation is probably better than you might have expected, but I think there are some dark clouds ahead of us if we are not careful, and you can see signs of that in the markets.

At some point with a certain level of regulation, taxes and capital requirements, you can kill off businesses, and if you kill them off, then obviously they are not there anymore. You will end up with a smaller market, with less liquidity, less opportunity and higher costs. That's where I think the danger lies.

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