

OPALESQUE



# Opalesque Roundtable Series '15 FRANCE

Opalesque Roundtable Series Sponsor:



# Editor's Note

The French market is very attractive market for two main reasons. First, France has very large investors who invest in all types of funds, including Alternative Investment Funds (AIFs), even if the latter are not the biggest bucket. Then, you find the renowned French excellence in the quantitative space which has in fact penetrated a lot of sectors globally.

The French asset management industry is vibrant, already 400 firms are registered as AIFM and thus comply with AIFMD. Some of the managers participating at this Roundtable have been doing very well, achieving **positive returns of 6%, 7% and even 11%** (by end of September), also demonstrating resilience and the ability to protect capital during the wild summer months of August and September. CTA veteran Manuel de Bonneval, the "historian in finance", was up 25% in 2014, and has in fact outperformed his peers by approximately one point per month over the last three years. "We did not get there by chance," he added.

*"When Winton Capital is up, everybody is up; when Winton is down, then everybody is down."*

But de Bonneval also criticises the quant industry for being too correlated and "doing the same thing". "When Winton Capital is up, everybody is up; when Winton is down, then everybody is down." While many of the mathematical models are extremely clever, a lot of people would be using them wrongly; "they rely on them too much and do not look at what happens in the world. It is not normal in an industry with so many clever, good people, that they all do exactly the same thing."

## Largest "global super high frequency prop trading group" is up more than 200% YTD

Very likely, this does not apply to the largest global super high frequency prop trading group which reportedly is up more than 200% so far in 2015. This group trades only prop money, but their market share, in terms of volumes for the equity market globally, is almost 30%. These prop trading groups are facing criticism for a number of reasons, starting with their market-maker status from the exchanges which offers them - amongst certain obligations - also very low fees and a much quicker access to the market.

They are blamed for adding a lot of volatility and "noise" to the markets, for "pushing the market to the extent that the whole market structure is changing. It is also like they are collecting a tax that would be paid by investors, particularly the end and retail investors." Could you actually say it's a form of **technology front running**? While speed is a risk management tool for market participants, where is the limit crossed to the extent that the principle of equality for all market participants has been abandoned?

## The illusion of liquidity

In one way or another, probably most investors and managers are affected by these "super high frequency traders" — maybe not that much if you're moving in "slow motion". Still, those groups are said to know where the managers, the traders have their positions, and they are **pushing the markets**. This is visible with some stocks' extreme intraday moves, in the currency sector, and more and more in the interest rates and in commodities sectors now. Of course it creates new opportunities, but overall is seen as a challenge for everyone as those traders also create the illusion of liquidity. "You can have liquidity for 10 seconds and then it's gone." So the gap risk is much higher, and in the end, with most investment banks having more or less disappeared, the long term investors, mostly institutional, are now waiting for larger drawdowns and larger gaps before they come back in the market.

More players are now raising such questions, and also want to know how exchanges and regulators worldwide are dealing with this phenomenon? For example, which exact changes or restrictions did the German "High Frequency Trading Act" bring? Who has to comply, and are the regulations effective?

The Opalesque 2015 France Roundtable, sponsored by Eurex, took place October 6th at the office of Eurex in Paris with:

1. Franck Guiader, **Head of the asset management policy division, AMF**
2. Manuel de Bonneval, **Tendance Capital**
3. Jean-Louis Juchault, **Puzzle Capital**
4. Arnaud Chretien, **Aequam Capital**
5. Raphaël Gelrubin, **KeyQuant**
6. Arnaud Boilley, **Karakoram**
7. Julien Sureau, **Unigestion Asset Management (France)**
8. Nicolas von Kageneck, **Eurex**

The Group also discussed:

- Why the French don't worry about the future, even if so far bonds and interest rates have been major contributors to their current performance
- Why solely price-driven systematic strategies can profit from being long bonds or interest rates despite the threat of Fed increasing their rates.
- What are the two major ways to do merger arbitrage?
- How many hedge funds has Unigestion, the EUR 16.3bn Swiss asset manager, on their buy list? Which sectors are attractive for Unigestion at the moment?
- How alternative investment managers in Europe have benefited from European regulations as non-European investors increasingly invest in European labels. Which are some of the newer EU labels?
- How will MiFID II change the European private wealth management industry? Why have certain firms started to buy asset managers?
- In which sense compares the environment today to the 1980s or the 90s?
- Why nobody should be afraid to trade peripheral currencies, like for example the Mexican or Colombian peso.
- How should your stops look like in the age of the super high frequency trades?
- How will the digital revolution affect the wealth and asset management industries over the long term? Could digital due diligence make life easier for managers and investors?

Enjoy!

Matthias Knab  
Knab@Opalesque.com

## Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Raphaël Gelrubin, Arnaud Boilley, Julien Sureau, Jean-Louis Juchault  
Nicolas Kageneck, Franck Guiader, Manuel de Bonneval, Arnaud Chretien.

Cover photo: "2050 PARIS SMART CITY" is a study carried out for Paris City Hall by Vincent Callebaut Architectures with the green engineering consultant Setec.

# Introduction

## Arnaud Chretien Aequam Capital

I am Arnaud Chretien, the founder and CIO of Aequam Capital. We are a systematic quantitative asset manager based in Paris. Our main activity is to manage absolute performance products for the risk takers including the Aequam Diversified Fund, our CTA which is available in UCITS, and Managed Accounts format. We also offer low vol Risk Factor based products and advisory mandates for institutional investors. We are five senior partners, all coming from the big names of the industry. At the heart of our investments and philosophy, *Risk Allocation* is our DNA!

## Manuel de Bonneval Tendance Finance

My name is Manuel de Bonneval, I am the founder of Tendance Finance. We are an advisory company based in Paris, focusing on systematic medium to long term technical trend-following. Because of my historian background, we try to have a more global and uncommon view of the market. Our firm advise a fund of La Française which has grown from 5 million € three years ago to 75 million € as of today's date. Our performance has been good, so for us trend following is still a valid proposition.

## Franck Guiader AMF

I am Franck Guiader, I am the Head of the Asset Management Regulation Policy Division at the AMF, which is part of International Affairs Department.

My role consists, with my team, in accompanying the French Treasury in negotiations of Level 1 texts proposed by the EU Commission, and working with the ESMA's staff on the preparation of delegated acts and the development of convergence tools such as guidelines, opinions, Q&As, thematic studies etc.... This part of our mission has been profoundly intensifying for a few years now, which illustrates that convergence in the EU is no longer a theory or an objective, but more and more a reality. My team and I also participate, in support to dedicated senior executives at the AMF, to the work which being done at the international level, taking the form of recommendations or analysis made by the IOSCO or the FSB. Regulatory convergence is also something that needs to be enhanced at the international level. Prior to the AMF I worked 10 years in the industry in M&A, asset management and also for the New York Stock Exchange Group, working on the EU side at Euronext.

## Nicolas Kageneck Eurex Exchange

My name is Nicolas von Kageneck, I work for Eurex Exchange as part of Deutsche Börse Group, particularly known for its benchmark derivatives like Bund, Bobl, Schatz or the EURO STOXX50 futures and options. I am based in Paris where Deutsche Börse runs an office since 1999. Together with my colleagues we take care of our sell-side clients, namely the big French Tier 1 banks as well as brokerage firms. We have also developed a strong relationship to the buy-side community since a couple of years as natural users of our products and services.

My focus is on the marketing & sales of our futures and options on Euro STOXX and STOXX Europe 600 broad based, size and sector indexes. Sector index derivatives are one of the fastest growing segments on Eurex Exchange.

## Arnaud Boilley Karakoram

I am CEO and co-founder of Karakoram. Karakoram is a spin-off of the alternative asset manager SIGMALOG Capital. Jerome Fourtanier, who was President of SIGMALOG, is now President of Karakoram. We are now four managers and associates at this company, which is totally independent. We manage roughly €70 million in assets today, after having started with €30 million three years ago. At this Roundtable, we may be the more traditional asset manager, but we have dealings other participants: Aequam Capital is one of our investments for our clients, for example.

We believe that we are a different type of wealth manager because we only work with flexible funds. For example, our open-ended fund Momentum is 0 to 100% exposed to equities, and performance comes from stock-picking, short term trading (a former expertise of Jerome Fourtanier at SIGMALOG), and hedging, which is financed by the short term trading in the fund.

**Raphaël Gelrubin**  
KeyQuant

I co-founded KeyQuant five years ago. Our assets have grown from \$6 million to \$170 million, with a healthy pipeline of interested prospects. KeyQuant specializes in mid-to-long-term systematic trend following strategies. Investors can access the Key Trends strategy via managed account, a Luxembourg SICAV (Key Trends UCITS) and a Cayman fund (Key Trends 15 Fund Ltd). Our current headcount is seven people, with significant growth expected in research and operations over the next 18 months.

**Jean-Louis Juchault**  
Puzzle Capital

I am the CEO and founding partner of Puzzle Capital, which is based in Paris and started four years ago. Prior to that I was the CEO and founding partner of Systeia Capital Management and of Barep Asset Management. I had the pleasure of working with Manuel de Bonneval in the past.

Puzzle Capital is a different type of animal. We do two different things: one the one hand, we run funds of funds specialized in financing strategies. On the other hand, we do merger arbitrage where we directly trade and take positions, so this part of our business is very different. We manage today \$120 million. We are doing pretty well, as the current situation and the timing within merger arbitrage and financing are very interesting.

**Julien Sureau**  
Unigestion

I am from Unigestion where I work in alternatives as an investment specialist. Unigestion was established more than 40 years ago. The company is privately-owned with a majority of the equity controlled by our senior management. With 190 employees from 21 nationalities, Unigestion is headquartered in Geneva and has offices in major financial centres around the world: Zurich, London, Paris, Jersey City, Montreal, Toronto and Singapore.

We believe that risk management is the driver of long-term performance for our clients. With over half of our assets managed through segregated mandates, we have a proven ability to understand our clients' objectives and design strategies tailored to their needs. We currently have EUR 15.3 billion of assets under management, with roughly EUR 1.8 billion in alternative investment solutions, mostly in funds of funds. We have had a Paris office since 1993, where 10 people are today managing client mandates and commingled funds.



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



Eurex Exchange turns figures into opportunities. About 70 percent of all listed and centrally cleared euro interest rate derivatives are traded on Eurex Exchange, making us the home to the euro yield curve.

We help investors get more from the market and maximize capital and cost efficiencies. [www.eurexchange.com/rates](http://www.eurexchange.com/rates)

**Eurex Exchange – the home to the euro yield curve.**



**Arnaud Chretien:** Our relative value – long term trend following CTA Aequam Diversified UCITS, did well during this summer, ending at around +3%. Year to date, we are slightly underperforming our peers, at -6%. But we maintain a systematic, disciplined, robust process with a unique risk allocation model, and we are convinced that we will be able to catch some good trends up in the future. Last year, we were in almost the same position at around the same time. We were -10% and we ended the year +20%. So 2015 is not over, and we work hard for you...

The beauty of our unique concept DyNA, our multi dimension Relative Value – Momentum strategy, is to perform well over the long-term offering true diversification under a strict drawdown control – Our worst drawdown has been 15% in the last five-year history.

Investors looking for Absolute Performance will also appreciate our ability to provide great diversification on the specific equity risk. If we look back at what happened in August 2015, when at some point the S&P was down 17%, or in September, when the equity market was hectic, Aequam Diversified program was able to provide some good, totally de-correlated performance ending the summer at +3%. So what we offer is divergence. And it's most probably a good investment timing for the risk takers.



**Manuel de Bonneval:** We are up 6% for the year. We were down 0.11%, which was not a lot, in August, and slightly more in September with -0.8%, so about -1% in aggregate over those two months. Last year, we were up 25%. Over the last three years, we have had a performance difference of approximately one point per month compared to our competitors. We did not get there by chance.

This year has been quite difficult. Everybody in the world of trend following has made money until April and nothing after. Market changes in direction have led to some losses. It was the same for UCITS or CTAs.

We think it is possible to reduce losses. A friend of mine, who unlike me – the historian in finance – is a real mathematician, told me that **mathematical models are extremely clever, but a lot of people in our industry are using them wrongly; they rely on them too much and do not look at what happens in the world.**

We instead, take into account that the world exists, and we think it is important to have a global view of what is going on. This is probably why we are doing better. We look at the same things but with different glasses and try to reduce the noise.

But we are not discretionary. To give you an example, when I was working at Man Group, I tried to have a strategy on the CAC and a strategy on the DAX. They were technical, not discretionary strategies, with roughly the same parameters. But I now think that it is more interesting to have a strategy on the conjunction of the CAC and the DAX. And this, because the world moves in a global trend today, which has changed a lot of things.



**Franck Guiader:** You asked about strategy? I would like to seize this opportunity maybe to briefly explain our priorities in terms of asset management regulation that are threefold: The first thing is to finalize a single rule-book for the Asset Management Regulation in Europe. It is of utmost importance to finalize this rule-book with the Money Market Fund Regulation, which is still under negotiations and has been expected by the AMF for a long time.

Secondly, we must work further on convergence at the European level and make sure that there will be less and less rooms for misinterpretations and circumventions throughout Europe. We all have to win with more convergence and a level playing field, from both the regulator's and the industry's perspectives.

Lastly, we are committed to continued programs in the cooperation with our peers, to accompany the industry in its development abroad, through the functioning of diverse passport and cross-marketing mechanisms, in Europe and even beyond. I am personally convinced that the development of the French Asset management at the International level can be driven and accelerated by our consistent regulatory framework which often serves as a benchmark in international work streams, and the recognition of a French expertise which does no longer require to be proved.



**Nicolas Kageneck:** We have experienced a particularly active market in the last months, global market volatility being on the rise, which is positive for our products overall and for the equity index segment in particular. Investors and traders have increased their hedging and trading activities, which has led to greater liquidity and larger open interest for instance in our broad- as well as narrow-based products. The STOXX Europe 600 broad-based index future as a broader benchmark for Europe has particularly well performed in September with more than 1.1 million contracts traded, which represents a 140 percent change to September 2014. This could be explained by an exceptional market situation, market participants continuing to focus on the potential impact that a declining Chinese market might have on the global economy and on Europe in particular.



**Arnaud Boilley:** For our Momentum Fund, this summer was difficult because it is 0-100% exposed to the market. The first leg down the beginning of August was not too bad because we had a lot of put options, but the second leg was a little disappointing. By the end of September, the fund was +3%. Within our category in Morningstar, it was not so bad as we gained in terms of ranking. But for us and our clients, it was a disappointment.

The fund now has an 80%+ exposure to the market, so the second leg down was an opportunity for us to regain some exposure to equity risk on that front. And for the first time since the beginning of Karakoram, we have a **net long position of call-options for the end of the year**. We usually use more puts to protect the funds, but this time, according to our analysis, there is an opportunity to add some exposure in the market..



**Raphaël Gelrubin:** In terms of performance, we are up 7% for the year. The interesting point this year is that the **major contributors to our strategy's performance have been bonds and interest rates**.

**Solely price-driven systematic strategies can profit from being long bonds or interest rates despite the threat of Fed increasing their rates.** This is one of the positives for systematic trend followers: If the systems sees trends, investors can profit in the context of a well-diversified portfolio.



One of the questions that our investors have been asking us for a couple of years is: *What will happen when the interest rates go up?* It has been two years that they are asking the same question. Given our long positions on bonds however, we are not afraid of a reversal. Certainly an interest rate reversal or a hesitation of one or two months will carry negative contributions from these assets. Thereafter, the negative carry of bonds, which is not good for us, will probably be compensated by very good trends on bond prices going down. It will in the end give at least diversification to the portfolio and probably great trends.

**Jean-Louis Juchault:** Puzzle's flagship is a merger arbitrage fund called Abrax. As I had mentioned, the environment is good for our merger arb fund, we are up 11% year to date. We were stable, between -20 basis points and +20 basis points, during July and August. We are in a good place at the moment; the fund has been ranked '**best performing fund**' by Barclay for the past three years.

The timing is pretty good, because we have plenty of mergers, and because the big players are gone; this was true a few years ago and it is still true now.

There is still some room for merger arbitrage funds, as a lot of these funds were closed post-crisis, and many of the big institutions have not re-launched their trading desk. So there are arbitrage opportunities around.

The merger arbitrage strategy is not linked to the performance of the market, so it is very attractive today because people are quite scared of the market, but we are not affected by that.



### Matthias Knab

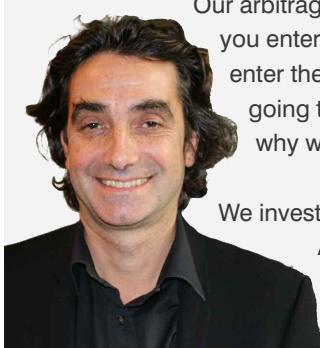
Could you tell us more about how you run your merger arbitrage fund, what is your secret sauce?

**Jean-Louis Juchault:** There are two ways of doing merger arbitrage. But first of all, we don't do event-driven, we don't bet on what is going to happen. We are very much pure merger arbitrage.

The first way of doing merger arbitrage is by trying to capture everything that happens in the market. So you have a very large exposure, a very large diversification, and you try to enter the market as soon as possible to benefit from the early moves.

We don't do that. We are late stage players, which is the second way of doing merger arbitrage. We enter the market when we consider that most of the big events are behind us, that is, regulatory issues, financing issues, etc. So we go for the one that is less risky.

Our arbitrage is between the performance that you could get from a trade, and the risk that is within this trade. If you enter the trade immediately, there is a pretty significant risk; technically, anything could happen. If you enter the trade at the end, the risk is much lower. Obviously performance is much lower too, but since we are going to carry the trade for a much shorter period of time, on a actuarial basis, it is still pretty good. This is why we have avoided the big hits that took place in the market in the past years.



We invest in developed markets, not in emerging markets. Developed markets have clear takeover codes.

Apart from that, we don't cover specific industries, and we do not exclude specific sectors, so from that side we are global.

Leverage plays a significant role. Some of my colleagues here are CTAs, so leverage doesn't scare them off. Our leverage is 2.5 on average, so clearly we are playing the final end of the trade. We consider whether the risk is low enough so that we may leverage the position in order to capture this small return/low risk, but with a larger scale.

**Matthias Knab**

Julien, within your multi-strategy fund of funds, what opportunities are you focusing on?

**Julien Sureau:** We have less than 50 hedge funds in our 'buy list' covering different investment strategies. Our 2015 YTD performance as of end of September, depending on the mandate, goes from 0% to 4.5% for our concentrated long/short equity fund of fund.

August and September were tough for hedge funds; indices were down around 2% in each month. But our funds have resisted the pressure quite well. We are known for our focus on risk management and ability to protect capital during difficult times. Our diversified funds were about 30 basis points down in August and flat in September. We avoided the big de-leveraging that happened in September mainly in the equity funds.

In terms of opportunities; we dislike credit at the moment. We see a lot of big firms, including hedge funds, liquidating their credit activity, and we see liquidity disappearing from the CDS markets, so we are very prudent on credit.

Within commodity, it has been tough in the last two or three years. But we like some themes such as energy dislocation. In the US, all the sectors in the energy space have been dislocating after oil prices collapsed. Specialized funds in the energy space are short stocks at the moment. There is a lot happening in this space; all the fundamentals have changed, valuation models need to be revisited, because the whole sector is in a restructuring mode, and this needs expert skills.

In the currency sector, opportunities are coming from the currency war going on between developed countries and within emerging markets currencies as well.

We also like what we call thematic equities, which are not based only on valuation analysis, but which are forward looking. That consists in identifying a corporate catalyst or a secular theme. Managers in this strategy are able to anticipate game changers and opportunities emerging from technological disruptions.



**Arnaud Chretien:** We as systematic traders are a bit on the other side in the sense that we do not predict the market. For example, I agree with Raphaël, especially with regards to interest rates, we don't know if or when they are going to reverse or not, or if they will even be going more negative.

At the moment, we have some positions in the commodity sector, that is where our risk is mainly. We are long bonds, long interest rate futures. We stick to the model and that is probably still the best potential for the fund.



On the other side, even if it cost us a bit in the last three days of August, we made very good returns for our investors through shorts in the energy sector, which we started in 2014 at around \$100 and kept the position till \$50. We then went back long, and short again, and we are still slightly short.

I used to work for the **Abu Dhabi Investment Authority**; a lot of the gas that we put in our cars comes from that side of the planet.

Thanks to my friends in Abu Dhabi, I've learned a lot there about the oil sector. Looking at the competition amongst producers and the deep changes in the industry due to global warming challenges, I believe that the trend will continue down, maybe there will be a big move coming. Our models are still short - it might be a big winner again and add value bringing diversification while the equity market is so hectic and interest rates so low.

I found it interesting to hear that Karakoram is long calls whereas in the past it was long puts, which is something new.

I would also like to discuss about some challenges we see in the market which literally affect most managers and final investors. A big challenge we are facing right now is coming from **super high frequency trading groups**. It's adding a lot of volatility - a lot of noise in the trends. They are pushing the market to the extent that the whole market structure is changing. It is also like they are collecting a tax that would be paid by investors, particularly those we call in France "Madame Michu", that is, the end and retail investors.

We believe that the way we manage money, I mean long term and as safe as we can for our investors, is our best answer and a great opportunity. For example, we don't put stops in the markets in the sense of predefined parameters that could be detected. We have developed a unique Risk Allocation **continuous function** that maybe the best protection for our investors.

Some of the extreme volatility that we are facing right now coming from the super high frequency traders brings a lot of noise in the markets, and most managers are affected by them. **They know where the managers, the traders have their positions, and they are pushing the markets.** We saw that with some stocks' extreme intraday moves, we see it in the currency sector, we see that more and more in the interest rates sector and in the commodities sector now. Of course it creates new opportunities, but overall I think this is a big challenge for everyone.

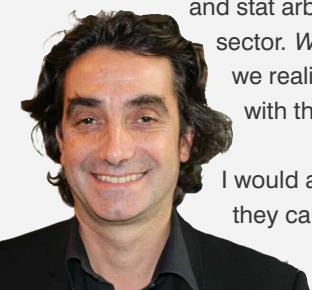
**Julien Sureau:** We completely share this view. The beauty of being a fund allocator is that we get the benefit of receiving views and insights from our underlying managers.

And here is what we see: with Dodd-Frank, investment banks are completely retrenching out of the market when it comes to their "prop desk" activities. This has led to the strong growth of high frequency trading, as Arnaud mentioned, and those traders create the **illusion of liquidity**. You can have liquidity for 10 seconds and then it's gone. So the risk of "gap" is much higher, and in the end, with all the investment banks having more or less disappeared, the long term investors, mostly institutional, are waiting for larger drawdowns and larger gaps before they come back in the market.

This creates volatility and noise. In the end, it is a good environment for traders, because they like volatility and period of valuation anomalies. But one must be very careful with liquidity as there can be some big liquidity traps in some asset classes.



**Jean-Louis Juchault:** When I was managing Systeia, we used to have a systematic trading desk that included both futures and stat arb. When we started the new firm – Puzzle, the third time in my life – we decided *not* to go back to this sector. *We thought it is impossible to fight the "big boys" in that industry.* As we were re-entering the market, we realized that we could not be able to devote the money to recreate trading systems that could compete with those traders, and that we should stay away from where they are.



I would agree with Arnaud's view that generally high frequency trading is very dangerous in a way, because they capture most of the moves, and at the end of the day the competition is not equal.

**Franck Guiader:** We are very interested in hearing views from the industry on liquidity management, especially because given the market conditions that we take into account in our approach, and also because a recent regulation (I mean the AIFMD) requires fund managers to carry out stress tests. This explains why we currently have been working with the industry to make sure that these stress tests are properly carried out, and to assess whether or not additional guidance could be useful in terms of, for instance, liquidity tools.

I would also say that at the International level, the European regulation is often recognized as one of the most comprehensive in the world, particularly with regards to issues on liquidity management, diversification and calculation of leverage. So, today we have been meeting our managers to understand how they are organized in terms of risk management and how they carry out their stress tests internally. Broadly speaking, the idea is to share around the liquidity management tools that already exist in European regulations and at national level as well.



**Manuel de Bonneval:** As we know, liquidity cannot be decreed; liquidity exists or does not. Confidence only creates liquidity.

But at the same time, there is a ray of hope; I remember that in 1861, the price of the cotton ball in New York climbed in one day by 500%, because it was the beginning of the secession war. So in the North, they had a problem with cotton. So you can see that there have always been such problems. For my part, because we have a long-term perspective, the only real scenario is that there is no scenario.

The bigger problem I see is that when a firm like for example *Winton Capital* is up, everybody is up; when *Winton* is down, then everybody is down. That is a problem in the trend following world; a lot of products have exactly the same movement at the same time. This is something I watch out for a lot.

We have had good results this year, in line with our competitors. But I say to my team every day that, in our advisory position, we must try to understand when we have a large correlation with others of say 0.6 or 0.7, as we need to be different.

It is really important for us on the technical side to try to understand what we are doing, why we are doing it, and what is going on. We don't just say, "we are long bonds", we also advise people on the reason why. We might tell them to go long the dollar against peripheral currencies, like for example the Mexican peso or the Colombian peso. As a side note, some people, even professional investors, have some doubts about these currencies, and I tell them they exist, they are part of the world. You can buy a forward, and be courageous. Sometimes we may tell them to move out of futures, and do such currencies instead. For example since yesterday, we began recommending being long on stocks.



Again, we believe it is important to think about what people are doing. **It is not normal in an industry with so many clever, good people, that they all do exactly the same thing.** Between September and April, everybody made money. Since April, everybody has lost the money. A technical system must try to understand that and do something about it. This is why we are trying to focus on this issue at the moment.

**Franck Guiader:** Coming back to Manuel's point on liquidity, there are currently a number of liquidity management tools in existence within European regulation, in international recommendations, and also at the national level. Sometimes the industry is not sufficiently aware of all the existing tools. Our role is to create awareness concerning what exists and to provide them with guidance when needed.

Concerning some recent initiatives launched at national level, you may for instance have heard about techniques such as anti-delution levy or swing pricing, that we have recently permitted in France and added to the range of liquidity management tools that already existed. These types of mechanisms can be useful to a certain extent of course, they are not the panaceas if you look at them separately, but among a range of tools, they can respond to certain needs and participate in mitigating the impact of massive runs from an investment fund as well as the costs for the final investor.



**Jean-Louis Juchault:** I am going back to Arnaud's points about systems and high frequency trading. What's the position of Eurex on that? Because clearly you are giving them the means and the possibilities to do those trades.

And I have a question which relates to the authorities and Eurex: is high frequency trading sustainable? It is not about this fund or that fund, but sooner or later it will be an issue for the authorities and it will be an issue for the stock exchanges to a larger extent. So is this something you are addressing?



**Nicolas Kageneck:** In Germany, measures have already been taken by legislators. The law for the prevention of risks and abuses in automated and high frequency trading, the so called **High Frequency Trading Act** came into effect in May 2013. This law introduced new requirements for algo and high frequency trading firms active in German securities and derivatives markets and irrespective of their location.

Of these requirements, three were particularly important for Eurex Exchange and its members. The requirement to have a license, the introduction of order to trade ratios (OTR) and excessive system usage (ESU) fees and the obligation to flag algorithmically generated orders. The latter is the responsibility of all direct exchange participants engaged in algorithmic trading, not merely those that use HFT.

But let me briefly explain what OTR and ESU is about: Direct participants of Eurex are obliged to ensure an appropriate ratio between their order volumes and the traded volumes that they actually carry out. The purpose is to counteract a behavior where market participants generate a high number of orders which are then deleted very quickly. Such practices can undermine market integrity. On ESU, the goal is to prevent excessive system load from harming system stability when processing a high number of order entries, changes and cancellations. In the meantime, Eurex Exchange has taken several steps to enhance its trading platform so that the exchange and its customers could comply with the requirements. In addition, Eurex is preparing for requirements stemming from European legislations such as MiFIR/ MiFID II. Certain aspects surrounding automated trading will thus be adapted, but it is not finally clarified what the exact scope will be, given the European legislative process for MiFIR and MiFID II is not finalized yet.



**Jean-Louis Juchault** Nicolas, the measures you are referring to have been taken in Germany by Deutsche Börse?

**Nicolas Kageneck**

We have worked with the German regulatory authority BaFin to put these requirements in place and to promote a better understanding of the risks of automated trading. Finally, while the law only applies to markets in Germany, as far as I know, similar requirements are being considered at a European level to address the risks of HFT.

**Arnaud Chretien:** I know that subject quite well, because some of my industry contacts are active in this field, and we talk sometimes about those challenges.



What I hear is that **the biggest global super high frequency prop trading group is up more than 200% for the year so far**. And their market share, in term of volumes, for the equity market globally is almost 30%.

**Jean-Louis Juchault**

This goes along with what I was just saying; it is not a sustainable business model for the whole community; although it might be a sustainable one for the people that are doing it.

**Manuel de Bonneval**

I guess we are all astonished by the information that Arnaud just provided 200% YTD...

**Arnaud Chretien:** The capacity of that group is huge. They don't trade client's money, so it's only prop money. And they don't do 10-second trades; they are done in nanoseconds.

There are five or six more groups like this. The number one I had talked about manages some micro wave networks as a way of transmission for the market orders. These are relatively small groups but made of very highly educated IT people – top notch scientists and engineers.

The other thing about those groups is, and that also comes back to you Nicolas, that these companies have **market-maker status** from the exchanges, because there is a huge competition between the exchanges for market shares. That means those groups have market making status, they pay very low fees and they have a much quicker access to the market.



**Matthias Knab**

So you could almost say they do a form of technology front running?

**Nicolas Kageneck:** I would not qualify it as technology front running. The importance of speed in electronic markets has dramatically increased in the last ten years. Latency became a dimension of exchange competition and exchanges started to serve latency sensitive trading strategies such as proximity service or co-location.

**Speed is a risk management tool for market participants.** When you think about market makers' quotes which need to be updated very quickly when information changes to avoid the market maker to be at risk. The higher the speed, the more immediate is the transfer of risk, the more liquidity the market maker is prepared to offer. This result in tighter bid-ask spreads the market maker is willing to quote which is good for the market liquidity. HFT is a natural reflection of competition between market participants using the advances in computer technology.

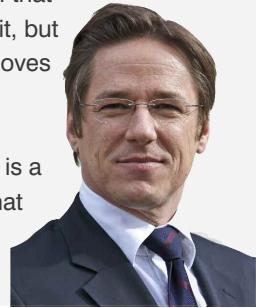


A massive regulatory intervention with many constraints as possible is to my opinion not a solution. Either the markets go somewhere else or the actors find ways of bypassing regulation.

Coming back to the market maker status, at Eurex Exchange you don't have to be a bank to become a market maker. Any exchange member can make markets, as long as he respects certain market maker obligations such as maximum spreads and minimum sizes. They get rewarded for providing liquidity and for the risk they take.

**Arnaud Chretien:** Let me add here that I am not saying that high frequency trading explains all the extreme moves that we recently faced. When you think about the 28% move we saw in energy over the last three days, a portion of that may be caused by those traders. With the fall of Volkswagen's stock price, there is another reason behind it, but when you look for example at Glencore' stock, which went down 30% and up 40%, a portion of all those moves can certainly be attributed to the super high frequency traders.

I am not saying that those guys are the super bad guys and we should close them down. But maybe there is a global solution that we should all work on, and at least giving them a market making status is something that should be reconsidered.



**Manuel de Bonneval:** I disagree with you, because this is what the market is.

At the beginning of this year when everybody was making profit, nobody was against it. Today, because the markets are quite difficult, everybody is blaming someone. When the energy goes up 28% in three days, you also have to be conscious of the fact that we had a sustained drop in the energy sector for an extended time, which now ended in a backlash.

I must remind you that all this nanosecond activity is just nanosecond activity; they go in and out, so they cannot explain 70% of a price move.

I also think we have to be cautious with regulation. I am not against regulation at all, but in this specific case where we may have some front running based on technology, we also know that over time these arbitrage situations will disappear.

#### **Jean-Louis Juchault**

I agree with Manuel's point on regulation, but for me the issue is more about equal access to the market for every player. That is part of the answer. The point is not that a regulator should chase every move and try to do something about it; it is that every player should have the same access in terms of speed, pricing, and those factors. So it is a matter of relationship between the players and the stock exchanges.

**Arnaud Chretien:** I understand your point of view, Manuel. But one has to understand that these groups will push prices in one way or another, when there is an opportunity to make a profit from it. I believe that available liquidity from a market maker, the one that you see on the screen, is mostly fake liquidity especially when one needs it. And when there is a quick potential profit on pushing the price, they push on it and collect their "tax". That is where they act. And in such a case, it increases the volatility, and makes the move deeper.

Of course on the other hand, you have opportunities that are potentially created there for other traders.

Let me clarify here that we don't think that we at Aequam Capital are affected by those high frequency traders. This is because we are slow motion, we are not in the same space, and we are not competing with them. We try to take advantage, in relative value terms, of the trends. We are in favour of technology, our company has been recognised by the Ministry of Research for our innovation in Risk Allocation, and so we are very much technology-oriented. But certainly high frequency trading is a topic we should pay attention to. No more taxes!



**Raphaël Gelrubin:** I agree with Arnaud. We look for trends from one week to two years and thus have an average holding period of 100 days, so the liquidity issue is not really an issue. Even if HFT do not provide real or perfect liquidity, they still bring liquidity to the markets, and thus create opportunities. Arnaud is right, we have to be cautious so that we don't believe or act on the liquidity that we see sometimes. So we can see the bad side of these players, but there is also the good side, which we profit from.



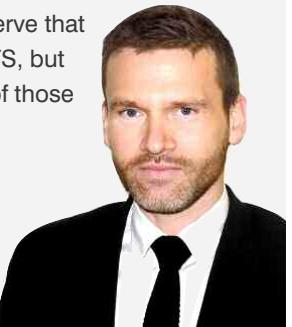
As Manuel was saying, we have to innovate, we have to find new ways to profit from the markets, we have to control the risk, and not just focus only on these players. For me, it is just like 30 or 40 years ago, when people in the pits had better access to the market than retail investors. Today we are just playing a much different game.



As with KeyQuant, I assume that most of the participants today use electronic execution as well. KeyQuant has developed and employs its proprietary trading algorithm. We are not trying to make one or two basis points on each trade, we are controlling the trade, ensuring quality assurance, and that we stay within the pre-determined trading range. For us, electronic trading is critical. More regulation is not welcomed in this area.

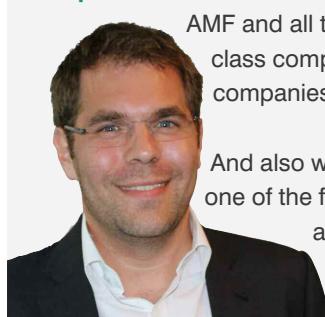
**Franck Guiader:** You are right when you say that we do not have to focus on the category of players.

I also think that regulation actually creates a lot of opportunities. For instance, as I already mentioned, the **European regulation is recognised at the international level**. Being part of a strong regulatory framework is an advantage for asset managers. Today, all of you can benefit from the passports, and use the labels that have been created by the European Commission during the last five years as marketing tools towards your clients.



The success of the UCITS regulation throughout the world paved the way for new European labels that are still at the early beginning of their existence but in which the Commission raised a lot of expectations. We observe that today, non-European investors are increasingly interested in investing in European labels, such as UCITS, but also CIS managed by AIFMs and soon, in ELTIFs – long term investment funds labelled by the EU. All of those labels should suit a certain categories of investors looking to invest in specific types of funds.

I really think that regulation creates a lot of opportunities and that this is a new era for asset managers. Innovation, the digitalization of financial services, and increased globalization require also to adapt regulation to practices and behaviours.



**Raphaël Gelrubin:** We really like regulations at KeyQuant for two reasons. First, it has been very profitable. Thanks to the AMF and all the rules and regulations, we were able to set up the company from the beginning as an institutional class company. Thanks to that, we passed the due diligence of some very big players, all well-known companies.

And also with the UCITS fund that we opened in Luxembourg, the AMF was really helpful at that time. We were one of the first Luxembourg UCITS managed from France, and we got a lot of questions from the Luxembourg authority. The AMF helped us a lot. We are really thankful for the regulation in France.

**Franck Guiader:** Thank you Raphaël, and of course I have to point out that the issue here is not only the French regulation or the French framework, but the European single rule book, which is what we also promote at the international level.

I am used to saying that there is one world, one global financial market, one EU regulation also, but there are millions of perceptions and interpretations of what this world is made of. So when it comes to perceptions, we are working with the industry to promote the European labels and the European regulation, to make sure that at the international level, for instance in Asia or in the States, things are not perceived improperly.

There are less and less rooms for regulatory arbitrage in Europe. It tends to zero. What yesterday was perceived by certain third countries as a fragmented EU framework has profoundly changed. Moreover, misinterpretations of EU regulations are banned by the EU Commission. Domiciliation of funds in one Member State shall today take into account the quality of the supervision carried out by the national competent authority and the quality of experts composing the ecosystem.

Third countries' perception concerning EU investment funds is no longer about only Luxembourg or another hub located in Europe, but about both supervision and expertise provided by one ecosystem applying the EU single rule book. We have been working on a daily basis on European convergence and, thanks to ESMA's commitment, participate to make things better. Therefore we think that today, it is time for all of you and us to work together and to promote our labels and our regulation at the international level.



**Arnaud Chretien:** Like Raphaël, we also see opportunities in the UCITS format. It is a great success in Europe, and even globally, as Franck said. Almost all investors in Europe now are focusing on finding product in this specific format – although this may not be the case for the AIFMD-style products yet. UCITS in some sense, is a great protection for investors, while on the other side of the Atlantic, the '40 Act format sounds also very promising for long-only product providers. We offer Absolute Performance managed accounts here, but for sure, in Europe, our key products are in the UCITS format – long short or long-only.



#### **Matthias Knab**

Julien, can you give us an investor's view on the high frequency trading story? And comment further on the different fund structures in Europe?

**Julien Sureau:** We have seen, as an investor in hedge funds, global macro funds complaining about the lack of volatility for the last four years, arguing that central banks are driving investors' sentiment.

However, over the last few months, the whole market structure has changed. It is not only high-frequency trading that has added volatility: when you look at the development of ETFs and mutual funds, investors are managing their assets in a way that they can now redeem their whole investment in one day, just because they heard about this or that story, or simply because performance is disappointing. In this environment in which we have more volatility, less liquidity, more uncertainties, as a fund allocator, we expect global macro and those CTA that follow more of a trading approach to benefit from that. So I think there is hope.

We see lot of older managers in the global macro space telling us that **the environment today is like what it was in the 80s or the 90s**. They also see more gaps in the markets and with rates potentially going up and the whole carry trades behind us, now it is going to be more about



higher volatility and more frequent local crisis leading to greater opportunities. That definitely means more performance for talented trading-oriented managers rather than for buy-and-hold.

With regards to fund structures, we at Unigestion also offer AIFs funds, as Unigestion France is an AIFM management company. For example, one of our clients in Switzerland last year moved its investment structure from offshore to onshore AIF managed by Unigestion France. This client was reinsured by the AIFMD framework in terms of risk management and also because we, as the investment manager, are subject to specific obligations.

Regarding UCITS, we are a bit sceptical when it comes to less liquid strategies. The opportunity set might be inferior for those strategies due to regulatory requirements that take away not only performance tools, but control tools as well.

However, we think it is a good way forward for liquid strategies. But you can also meet some very talented non-UCITS hedge fund managers with no intention to be UCITS since they are closed to new capacities. As a specialist of manager selection, we will always favour talent over regulatory format.

**Franck Guiader:** I will add some clarifications concerning the European funds' framework. You are right, the UCITS Directive applies to funds and managers, and the AIFMD only applies to managers. Rules concerning the so-called AIFs (Alternative Investment Funds) are only under the ESMA's key concept under the AIFMD guidelines, which may not be sufficient in all cases. But the trend of the Commission is to develop new labels and so, new rules applying to certain categories of AIFs. In the realm of the EU asset management regulation, until the implementation of the AIFMD, we only had UCITS, MIFID and additional specific national rules.

Since July 2013, we have seen half a dozen regulations in Europe applying to asset management. We now have the EuVECA for **European Venture Capital Funds**, the EuSEF for the **European Social Entrepreneurship Funds**, the ELTIF regulation raising a lot of expectations for the **European Long Term Investment Funds** and the highly expected MMF regulation that will apply to **Money Market Funds**. I heard you wondering about EuVECA? This regulation deals with certain types of venture capital funds. It entered into force at the same time as the AIFMD. The Capital Market Union will lead the Commission to revise this regulation which could be useful since so far, it has not been a great success! We only have one EuVECA fund authorised in France, and maybe less than 20 in Europe.



These are examples of European labels that have been recently set out. We should have in the coming years more labels specialized by strategies created at the European level. These labels should be promoted internationally, as the UCITS label, which has become a great success, as Arnaud mentioned.

### Arnaud Chretien

Julien, you mentioned the 80s. Around this table, few of us were in the market in the 80s. About two months ago, I did a video interview with Matthias for Opalesque.TV, and we mentioned the 1987 crash. And actually, the extreme volatility of the last two to three months reminded me of those days I was in the pits as an equity trader, during the 1987 crash. That's where I started to understand risk management!

### Manuel de Bonneval

I remember this moment. At the time, there was a national inquiry in the States by a Commission of the Senate stating that it was portfolio insurance that caused the decline of the Dow Jones. Their conclusion was that it was not the case, it wasn't the fault of portfolio insurance. So after every crash, we look for scapegoats. Well, you can do that and try to find one, but sometimes it is the market that is the scapegoat.

### Arnaud Chretien

Sometimes it is too scary to say that that was the case.

**Matthias Knab**

We have just talked about regulation and European products. Is there anything about France we haven't mentioned yet?

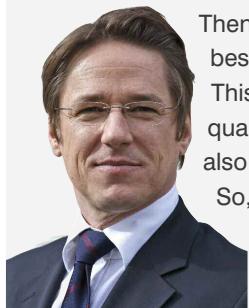
**Arnaud Boilley:** I am in the private client-oriented business, and there, MiFID II will affect the way wealth management advisors will be remunerated. Renumeration will be based on fees, and not on retrocession any more.

This will impact the industry in France, because the wealth manager advisors may lose their independent status, or they may end up buying asset managers to expand their value-add chain. We are already seeing Primonial Group buying Roche-Brune Asset Management, Altaroca Asset Management. This may be the way the **private wealth management** side will evolve in the coming years.

**Franck Guiader**

We have still been waiting for Level 2 texts on MiFID at the European level. We have been of course working on the preparation of the implementation of the rules at the national level. We always do our best to manage and anticipate the impact of new rules on asset managers, and we think that concerning MiFID II, the impact on managers should be limited. We will provide some guidance concerning these points, as we used to do for new regulations.

**Arnaud Chretien:** The French market is very attractive market for two main reasons. First, we have very large investors who invest in all types of funds, including Alternative Investment Funds (AIFs), even if the latter are not the biggest bucket.



Then, you have French excellence in the quantitative space. French asset managers in this field are among the best in Europe. I could mention a number of names, and some of them are present around this table today. This means that investors in Europe also in North America, which remains the most relevant region for the quant space, can find some very interesting quant asset managers in France. Those who are in Europe can also enjoy their UCITS funds. Some of our quants are based in France, in the US, in London, as well in Asia. So, in the French market, you can find great managers with a very strong track record, and, if you are a manager, you can also find interesting investors here who could invest in your products.

**Jean-Louis Juchault**

A question to the AMF: how many AIFMD-compliant firms do we have in France?

**Franck Guiader**

Roughly, around 400 companies out of more than 600.

**Jean-Louis Juchault**

So this confirms that the French market is very vivid and there are plenty of active companies, even though not all of them are big. It is a very active and a very creative market, and this is thanks to the AMF, which has been supporting some of them for the past few years. It is really good to have the support of your authorities..

**Manuel de Bonneval:** When I was at the Miami conferences last year, I saw that the second represented population there, after the American, were the French people.

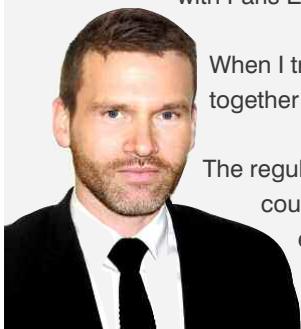
But while the regulatory authorities there are more business-oriented, the authority and the community here in France must maybe also engage more in that direction, because a lot of the work, a lot of the people and companies are slipping away and going to London, Dublin, Luxembourg or elsewhere. We, in finance, are in a numerical world, together with our colleagues who are in IT and such sectors. Today money is worldwide-oriented. For those who have a very good level of training and education, the attractiveness of our country needs to be improved.

It is necessary to retain people here in France. I remember having a conversation with people at Paris EUROPLACE, an organization that represents the French financial markets. When I said I was probably going to London to set up my business, they said, "London is a bad idea, please stay here in Paris! I said, "Fine, I can stay in Paris, but what can you do in terms of organization, distribution, and even taxes?" The answer was quite ambiguous. In the end, I don't think the "software", or the predisposition of the general political direction of France isn't really oriented towards finance; in fact, it is probably slightly against it.



**Franck Guiader:** That is true. It is also because the market, in terms of composition, is highly fragmented. In France, we have a lot of small and medium size companies and few asset managers. A majority of small and medium French asset managers has less than 50 employees.

Because of this fragmentation in terms of size, it seems to be uneasy to create a common awareness and a common action plan in terms of international promotion. The International affairs directorate of the AMF (the department I belong to) works a lot with the AFG (Association Française de la Gestion financière) that represents French asset managers in France, but also with Paris EUROPLACE and the industry to accompany French managers at the international level.



When I travel to London, I see most of the time how different people coming from the industry, the regulator, together with lawyers and other service providers work to promote and achieve something together.

The regulator must play its role in terms of authorisations, supervision and sanctions. Its mission is not of course to promote the industry. However, sometimes, when a conference or an event deals with the exposure of the ecosystem (combining regulation, expertise and intermediaries), promotion can be twofold: we can promote our rules and our regime while the industry promotes its expertise.

#### Arnaud Chretien

As an entrepreneurial asset manager, I would not say that the market is fragmented in France even so we have 600 asset managers available here; rather, it is concentrated on big names, so there is a concentration in size. And we have a very good regulation which protect private investors.

**Julien Sureau:** I agree on the consolidation of asset managers. But it is also nice to see the development of smaller French asset management companies.

On the investor front, regulation is quite punitive (specifically Solvency II for insurance companies): it is far from being a real incentive to do more alternative investments, including private equity and hedge funds.

The end investor should do more than just invest with the biggest names. They could look into the smaller names too but are often limited by internal constraints. I am optimistic for small companies, and they are still developing in France. But let's also be clear that up until end of 2008, the market for hedge funds was much bigger. Most of the big funds of hedge funds, our competitors, have disappeared or have merged with others.



Nevertheless, we think that most of the big institutional clients still believe in the benefits of hedge funds. However, they have a lot more pressure from their own investment committees, board of directors, and from regulation. Even though they believe hedge funds are useful, in the end, they can only maintain the allocation, and are very rarely able to increase it.

**Raphaël Gelrubin:** Just to rebound on what Manuel said, in France we have a research tax credit scheme or Crédit d'Impôt Recherche ("CIR") as an incentive for research-oriented entrepreneurial companies and start-ups, and this is really good for innovation.

France has a very strong mathematical education system, which makes for strong candidates at hiring companies. This skillset is appreciated worldwide and we are well-known for this.

At KeyQuant, approximately one quarter of our investors are European-based, with the majority (75% based in North America). Being based in Paris has its drawbacks. American investors travelling to Europe typically go to London, and then you have to convince them to 'lose' one day and come to Paris. The good thing is that we *have a lot of talented managers, and thus we have to sell them by saying: "Come to Paris to visit KeyQuant, visit our competitors, and you can do some shopping here too."*

The important thing is to work together in order to keep the larger investment conferences in Paris going. It's important that the Americans, the Asians come to Paris for the conferences, and have one-to-one meetings before or after the conference.

#### **Manuel de Bonneval**

That is correct, a lot of people who are interested in the advice we give, come to Paris for specific conferences like the Morgan Stanley conference for instance. Morgan Stanley does a very good job attracting a lot of foreign people in Paris, and these people will make time to see you before or after the conference.

So I think that the AMF could sit with other large banks and push for more of this type of events; conferences for investors and clients that includes introductions.

#### **Franck Guiader**

We work with Paris EUROPLACE for such events, and I often participate to conferences, forums, for example in London, and more and more beyond Europe, in the US and China especially. But it is not our role to organize conferences, and besides, if it had been, we do not have the budget to do so.

We are happy to work with Paris EUROPLACE and the industry and participate to conferences, to promote the European regulation framework (and remind people that EU is not just a Luxembourg framework, for example). But we think that it is in the hands of the industry itself, and of course Paris EUROPLACE to organize such visibility programs and events.

**Jean-Louis Juchault:** I totally agree with you on that. The fact that the European framework applies to the whole of Europe makes local regulation much less visible.

At the end of the day, people don't really care about where you are located, as long as, firstly, the regulatory framework is acceptable and they are confident with it, and secondly, as long as performance is fair. So a European framework is very helpful to the France-based industry, because it lessens the specificities of each country.



We manage Cayman Islands funds approved by the AMF. So even if being in Paris is an issue, because people don't fly to Paris very often, but **if you have good performance, they will come.**

It is true that we don't get the full flow of people coming to see us. But remember that it is not because you have ten meetings that you are going to have ten investors. Analysts are paid to meet with you, and it doesn't mean that they are going to invest. And those that are actually making it to Paris, at least, they will have read your monthly reports, they know about you, and they are really interested investors.

I agree that it is painful to hear, 'I will be in London, I have no time to go to Paris, the train takes too long.' But the same people will go to Geneva if there is a good manager there. So if there are two good managers in Paris, they will come – it is in our hands, in the end.

**Arnaud Chretien:** The good news is we have dozens of good managers in Paris, and we are all doing our best to attract those investors.

What is also helping is the **digital revolution** which becomes also more and more available in our space; wealth and asset management are benefiting from the developments in Fintech challenges. And from that perspective, location is not really an issue because digital is global.

And some retail investors are very interested by this new offer, the B2C model (business to consumer), which so far does not really exist in France, will eventually grow thanks to the new generations.

At AEQUAM, we are already working on a Fintech solution where we offer our risk allocator DyNA in a new way, through a Fintech set-up. Of course, price here is still a challenge.

For example, within the smart beta space, we have in France a local leader who is able to offer solutions at a very attractive price. The US is the number one market for Fintech. The global offer is around 20 basis points. These are the full fees for a

year; and the industry already has more than \$200 billion in AuM in Fintech. In France we have a number of players, around five or six names, but prices here are much higher than these 20 basis points. At AEQUAM we believe that the price is key here.



For quants, Fintech provides great opportunities where we can offer our expertise in risk allocation. This market has great potential, but through whatever angle we approach those businesses, we have think global in order to market internationally. We have to visit other countries. It is not only about the challenge of attracting the people here, it is also about being visible from the outside. And the good thing is that this digital world is global and you can be visible outside France quite easily.

**Franck Guiader:** I think that digitalisation of financial services should narrow down the gap between the manufacturer funds and their final investors, I mean between the B and the C that Arnaud mentioned.

There are a lot of opportunities to work together on this topic because new forms of distribution seem to arise in the world. The Capital Markets Union also emphasizes issues stemming from the digital transition. We also have been working on difficulties that managers could meet in terms of cross-marketing, and more broadly, in terms of internalisation of the distribution channel. It seems that areas of improvement exist, which should launch working groups and trigger new initiatives in a near future.



**Arnaud Boilley:** With regards to these Fintech offerings, it is funny to see how we, as a traditional investor, try to build a track record for years, and then on the other side new actors come to the market who have no track records but only a promise.



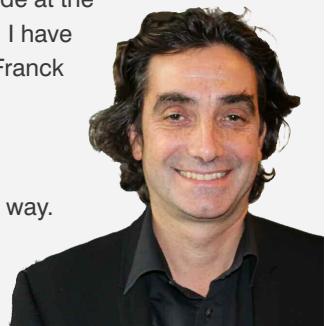
I looked at one of them not long ago, to see what they offer. There is no track record and they only propose a 90% chance of being in a certain performance range. Now, when it comes to our own marketing, the information and reporting format we have to send to the AMF is very stringent. And these new offerings are very different, and I am not sure that the client will actually benefit. Time will tell, but for a time-being, there is no track record on that. I see this as a challenge for traditional managers like us.

**Matthias Knab**

Any other comments?

**Jean-Louis Juchault:** Manuel and I, and to some extent Arnaud (although he was on the banking side at the time), have been in the hedge fund industry in Paris for a while. Now, since the beginning of the 90s, I have often heard that there was no future for the alternative industry in Paris. But when I hear today from Franck that we are still 400 AIFMD-compliant companies, I am pretty happy about that. There is still a lot of effervescence in Paris.

In the past, being in France was really being in France, meaning we were also limited to France, in a way. Today, with the help from the European regulation – as opposed to French regulation – the whole financial industry has changed a lot and making business has become much easier.



**Franck Guiader**

Let me clarify that within the 400 alternative investment fund managers in Paris authorised under the AIFMD regulation, only 5% would be real so-called hedge funds. The others run private equity funds, real estate funds and non-UCITS diversified funds. The scope of AIFMD is very wide. If you look at the definition in the Level 1 text, a CIS which is not authorised under the UCITS directive is actually an AIF. People often confuse AIFs with hedge funds, which does not correspond to the real picture at all.

**Jean-Louis Juchault**

I agree with Franck. The term 'hedge fund' is meaningless today. We don't even use it. It is more about 'funds' and having the ability to create new, attractive vehicles.

**Arnaud Chretien:** Something that has been on my mind for a while now is the notion how a sort of **digital due diligence** can really make life easier for managers and investors. I am talking about a format or platform where investors and managers can meet in the digital world, taking advantage of all the technology that has been in existence for decades now.

What I am referring here could be a sort of label, certification or platform that would make the investors a bit more comfortable regarding an asset manager. If they cannot travel to Paris, they will travel using the cloud, using the digital solution, and you can meet digitally. I used to do that at SocGen with webcams, and I had teams around everywhere, India, Russia, the UK, the US. It was working really well. But without a label, people cannot trust that very much.



I am thinking of a kind of French label for digital due diligence meeting that would allow a certain manager to be eligible for let's call it long-distance due diligence, off-site, and take away the idea of distance. And we need a label for that.

**Manuel de Bonneval** I think this is a problem, in my experience the investor wants to come to the office, even if he likes the digital format.

**Arnaud Chretien** Yes, but keep in mind that **the future is digital**, it is global, it is already happening right now.  
*When you book an apartment on Airbnb, you don't take a flight to check if the apartment is great.*

**Raphaël Gelrubin** You want to put all your procedures and everything on Dropbox?

**Arnaud Chretien** Not on Dropbox.

**Raphaël Gelrubin** Or OVH, to stay French, so they can see everything and trust it?

**Arnaud Chretien** Maybe something like this. This is not science fiction, I am convinced that greater efficiency and more transparency for our investors are created through technology in our space, and that will include due diligence process as well. You will be able to have a meeting with someone on the other side of the planet without traveling saving cost and time. But for that, you must have a secure framework which does not leave room for cheating.

**Julien Sureau:** Operational Due diligence was very well perceived after what happened in late 2008. At that time, all those who did their work properly were rewarded, while others were hurt. Today Operational Due Diligence is perceived as a 'commoditized service' with real value only visible when this is a problem (like buying travel insurance).

Besides, you should be happy that people conduct due diligence on you. And you should be glad that they meet you in person, even though traveling can be an issue. Albourne is an example of 'commoditized' due diligence. Of course they do the job, but it is always safer to meet the people in person. After all, you invest in people. Particularly with quantitative funds where you invest in process as well. My view is that due diligence will always be more powerful if you see the people in person. And of course, a proper due diligence should include an in-depth review of operational and legal risks.



**Jean-Louis Juchault:** I just want to comment on Arnaud's question about a secure framework for digital due diligence. First of all, the AMF cannot do it, because it is a controlling body, and they cannot say that we are good guys because they are controlling us.

But your point is valid. What you are referring to is more like a fiduciary engagement by someone that will say, 'yes, they do have an office, I came to their office, they have bought those computers, and this is not fake.'

What we could do is, collectively, address Paris EUROPLACE, and Paris EUROPLACE could state within their mandate, 'I certify that this gentleman really has his office, we control it, and it is stamped, it is Paris EUROPLACE-approved.' That could make sense.

Or, another way to go about that could be through an audit by an external audit company. Not Paris EUROPLACE, because they would have a conflict of interest. But if you call E&Y, KPMG or whoever, and say, 'please check all those boxes, stamp that, put it on your website', and therefore certifying that they have verified us, then possibly people in Singapore could rely on that information. This could be a practical approach.

**Franck Guiader**

Anyway, from the regulator's perspective, the answer shall be legal.

I make the parallel with what is expected under the UCITS V Directive concerning the custodian. When a depositary of UCITS funds appoints a sub-custodian in a third country, a legal opinion, ensuring that in the case of bankruptcy of the sub-custodian, the local rules in terms of insolvency do not exempt the sub-custodian from applying the rules concerning the segregation of assets, must exist.

Hence, from my perspective, I guess that the answer should require in any case a similar "legal opinion" ensuring the existence of experts, their ability and capacity to carry out their business and so on. We can discuss further but in any case, I think that it would not be something as light as a simple certificate which might not be sufficiently binding.

**Julien Sureau:** You all mentioned that most of your clients are outside of Europe, mainly based in the US. This is something we should all think about. What about local French investors?

Maybe our French asset management community should focus more on what else the investors need. In fact, investors don't only need performance; they clearly also need more customized services. This is something we have been working hard at and that large US competitors are excelling at. They are able to provide a lot of services, from digitalization of client reporting to integration of data.

In today's world, any institutional investor would certainly appreciate more service. We have a French industry body called AF2I ("Association Française des Investisseurs Institutionnels"), which started a working group in 2009 geared toward hedge funds. We need to take up that work again.

When we meet institutional clients, it is very clear that they need absolute returns; bonds are paying zero, equity indices are getting volatile, and private equity is locked with low turnover. Moreover, they don't like drawdowns and at the same time need to match their liabilities or financial result target. So they need any kind of absolute return performance. Even 4-5% is okay for them now, if you look at the insurance companies.

We need to find the right services to ease their life. We need to put ourselves in their shoes, and understand what they need. With such a client-centric approach, I can see all of us grow further and help the end investors reach their goals.



# accurate

## professional reporting service

No wonder that each week, Opalesque publications are **read by more than 600,000 industry professionals in over 160 countries**. Opalesque is the only daily hedge fund publisher which is actually read by the elite managers themselves



**Opalesque Islamic Finance Briefing** delivers a quick and complete overview on growth, opportunities, products and approaches to Islamic Finance.

**Opalesque Futures Intelligence**, a new bi-weekly research publication, covers the managed futures community, including commodity trading advisers, fund managers, brokerages and investors in managed futures pools, meeting needs which currently are not served by other publications.

**Opalesque Islamic Finance Intelligence** offers extensive research, analysis and commentary aimed at providing clarity and transparency on the various aspects of Shariah compliant investments. This new, free monthly publication offers priceless intelligence and arrives at a time when Islamic finance is facing uncharted territory.

**Alternative Market Briefing** is a daily newsletter on the global hedge fund industry, highly praised for its completeness and timely delivery of the most important daily news for professionals dealing with hedge funds.

**A SQUARE** is the first web publication, globally, that is dedicated exclusively to alternative investments with "research that reveals" approach, fast facts and investment oriented analysis.

**Technical Research Briefing** delivers a global perspective / overview on all major markets, including equity indices, fixed Income, currencies, and commodities.

**Sovereign Wealth Funds Briefing** offers a quick and complete overview on the actions and issues relating to Sovereign Wealth Funds, who rank now amongst the most important and observed participants in the international capital markets.

**Commodities Briefing** is a free, daily publication covering the global commodity-related news and research in 26 detailed categories.

The daily **Real Estate Briefings** offer a quick and complete oversight on real estate, important news related to that sector as well as commentaries and research in 28 detailed categories.

The **Opalesque Roundtable Series** unites some of the leading hedge fund managers and their investors from specific global hedge fund centers, sharing unique insights on the specific idiosyncrasies and developments as well as issues and advantages of their jurisdiction.

**OPALESQUE**

[www.opalesque.com](http://www.opalesque.com)