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Opalesque Roundtable Series '15

AUSTRALIA

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Editor's Note

The Australian hedge fund environment has always been good

Australia is the **fourth largest pension market** in the world and growing at 10% a year. It is also home to some excellent managers who have delivered consistent alpha over a long period of time.

For example, the market-neutral space in Australia is still generating great returns. By end of October 2015, investors should have gotten between 12% and 20% in an Australian market-neutral fund, and over the last ten years 12% to 18% per annum with very little volatility. Australia is a sweet spot for investors, but under utilized, also by local investors.

Many of the larger Australian institutions had gone with global hedge funds, mostly top 100 funds, whose performance has often disappointed. If we look through their position level data or through their regulatory filings, we know that the top 100 funds are all in the same trends. That means if you buy one of the top 100 funds, you are mostly getting the same as with any of the other 99. It looks like they are not doing anything different, they are not going out for informational advantage.

But contrary to the global landscape, the Australian hedge fund environment has always been good, and this Roundtable discusses the **structural reasons** for that. Currently, offshore and Asian investors are coming back into the Australian marketplace, also because the Australian dollar has fallen. Australia also made some regulatory tax changes which will are positive for foreign investors.

How to access the Australian investor bases

The Australian pension market has split into three in Australia. These are retail, a middle sector that includes the self-managed super funds and family offices, and institutions.

Many wealthier people have lifted out their super funds from the industry superannuation funds into a self-managed super. What's interesting is that the institutional piece is actually getting smaller as a set of the entire wealth in Australia, because there have been no net dollar inflows in the institutionally managed super funds over the last three or five years. Most of the wealth is now sitting in retail (35%) and self-managed super (40%). The rest is invested with institutional supers.

The institutional market is controlled by the consultants to a great extent. When someone is looking to get access to the Australian retail investor base, which includes the wealthier self-managed super funds, you have to get across gatekeepers as well.

Getting a hedge fund on a retail distribution platform is a major undertaking and quite a long commitment, but it's also a very profitable commitment, because once you get on what's called the APLs, which is the Approved Product List, your fund will then sit in model portfolios, and **from every retail dollar that comes in you may be allocated 1% of that dollar.** There is actually a long history of offshore hedge funds raising significant amounts of money in Australia. Some funds were even able to use Australia as a springboard to then raise money in their homeland.

Participants in this Roundtable discuss detailed strategies and the required steps offshore investors need to take to get access to Australian retail, self-managed super, and family office investors.

The Opalesque 2015 Australia Roundtable, sponsored by Ascalon Capital, took place in November in Sydney with:

1. Chad Slater, Joint CIO, Morphic Asset Management
2. Damien Hatfield, Head of Sales, Australia, Ascalon Capital
3. Daniel Liptak, CEO, ZG Advisors
4. John Maddalena, former CFO, Olbia Funds Management (family office)
5. Rob Lance, Head of Ascalon Capital Managers Australia
6. Stefan Chytra, Co-CIO, Whitecove Capital

The group also discussed:

- Why offshore funds looking for distribution in Australia should at least target 25% of their total AUM to be raised there
- Reasons why also going forward Australian hedge funds will outperform
- Benefits of a very active approach to running hedge fund portfolios
- How are family office investors different from superannuation investors?
- Why Australian institutional superannuation funds have a classic agency problem
- How quants determine what to disclose to which type of client. How to best market a highly proprietary trading strategy.
- Insights into the Australian incubator and early investor communities

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Stefan Chytra, John Maddalena, Chad Slater,
Rob Lance, Daniel Liptak, Damien Hatfield.

Introduction

Chad Slater
Morphic Asset Management

My name is Chad Slater. I am one of the joint CIOs at Morphic Asset Management based out in Sydney. We are a long/short global equity fund, currently running about $130m of funds under management. Jack Lowenstein, the other Joint CIO, and I set up the firm in 2012, having worked together at a firm called Hunter Hall, which is a global long-only manager. Before that I worked at BT Funds Management in Sydney; Putnam Investments in Boston; and started my career as an economist at the Federal Treasury.

We have a team of seven investment staff and have been going just over three years now. I would say the point of differentiation of what we do versus say other global long/short managers is a better integration of macroeconomic views and innovative portfolio construction.

Stefan Chytra
Whitecove Capital

I am Stefan Chytra, the co-CIO of Whitecove Capital. Whitecove manages one fund, the Whitehaven SPC Correlation Fund, which is a Cayman Islands based hedge fund..

The fund looks for short term dislocations in cross-correlations between assets. The fund trades across global markets and enters spread opportunistically as they arise. The process relies upon proprietary software which systematically enters and exits trades in a timeframe measured in days or weeks.

Historically the strategy performs best in periods of high volatility. However it has still been profitable during periods of declining or low volatility. Currently the fund trades futures and/or options in interest rates, equity indices and foreign exchange markets.

The fund has been trading for over four years and has had only three negative months.
The daily sharpe ratio has been greater than 4.

Rob Lance
Ascalon Capital Managers

My name is Rob Lance, I am head of Ascalon Capital Managers Australia, based here in Sydney. Ascalon is the boutique asset management arm of BT Financial Group, which is fully owned by the Westpac Banking Corporation.

Ascalon has offices in both Sydney and Hong Kong. Our CEO, Chuak Chan, as well as our Head of Investments Andrew Hutson and Head of Global Business Development, Katarina Royds are all based in Hong Kong. Here in Sydney sits our Legal, Compliance, Finance and Australia focused sales teams.

Ascalon partners with emerging fund managers by taking equity stakes and investing in their underlying funds. We assist growth where appropriate, taking a Board position and offer a range of services from marketing representation to functional legal / compliance / finance support. A good example is Morphic A.M, who is represented by Chad Slater here today. We currently have six management partnerships, three based in Sydney, of which Morphic is one, and three in the Asia-Pacific region.

We are very much in growth mode with active discussions both here in Australia and in the Asia Pacific region looking to add to our stable of partner firms. It is an exciting time for us and I look forward to sharing more throughout the discussion.

Daniel Liptak
ZG Advisors

I am Daniel Liptak, CEO of ZG Advisors based in Melbourne. It's been nearly two and-a-half years since we set the business up, primarily to address what we saw as a need in the marketplace to provide advice to family offices, sophisticated investors and institutions. My partners here in Australia were looking to address that, and the feedback from the market was we also needed a global reach.

We therefore teamed up with an established and truly global alternatives specialist, giving us a very valuable international dimension to our business. This allows us to spot trends early, and provides us with access to their fund research/database, risk management capabilities and portfolio construction expertise. We augment this with our own domestic funds research in Australia.

We now have $1.2 billion under advice. We are slowly growing that as we have a reasonable footprint and have a large number of tenders out at the moment, ranging from very large institutions to family offices.

John Maddalena
Olbia Funds Management

My name is John Maddalena. Between 2008 and 2013 I was the CFO of Olbia Funds Management, which was the family office for the Salteri Family, who owned Tenix, a major Australian engineering company. Myself and Peter Fitzgerald, who was the CEO there, established Olbia in 2008. Prior to that I was with the Lowy Family Group.

At Olbia Funds Management, we primarily dealt in global listed equities, but also managed funds, currency, and pretty much anything else that we thought would increase the wealth of the family. So we were very diverse investors. For the last two years, I have been consulting and am now about to start with a major Australian bank.

In my family office career we where primarily investing in direct equities and boutique funds; both managed funds and hedge funds. We typically were trying to find managers who had a similar mindset and investment thesis to us. These were generally not large funds. We always liked to meet with the managers, so we weren't interested in the huge funds where you don't get to meet or talk to the main portfolio managers when you wanted to find out what they were thinking.

We invested globally with hedge funds, which meant a lot of travel around the world and actually sit down with the managers. I always found it fascinating to do that, because, for example coming from Australia, we might have a certain view of what's going on in the US, and when you actually get there on the ground, you find that people are thinking in a very different way.

Damien Hatfield
Ascalon Capital

My name is Damien Hatfield and I am Head of Sales for Ascalon Capital. Previously I was running my own third party marketing business, Triple A Partners. Last year I merged the business into Ascalon. I market existing Ascalon partner firms and we have included third party marketing services within Ascalon. Our objective is to develop marketing relationships into local business partnerships.

In Australia we represent Ramius, a New York based Alternative Asset Manager. Ramius manges over A$3 billion of assets on behalf of Australian investors.

I have been involved in the Australian alternative asset business for over 25 years. I have structured and marketed domestic product offshore and introduced global mangers to Australian investors. During my career I have held senior positions with Pengana Capital, Colonial First State and Deutsche Bank.

I have been concerned at the lack of activity in the hedge fund business in Australia. The focus on low fees and liquidity here inhibits the development of a thriving industry. In addition, fund of funds are still the largest investor segment, and very few venture down to Australia!

Matthias Knab Let’s look at what’s driving the evolution of alternative investments in Australia? What are some of the trends that have been happening?

Daniel Liptak: The market really has split into three in Australia. These are retail, a middle sector that includes the self-managed super funds and family offices, and institutions. What's interesting is that **the institutional piece is actually getting smaller as a set of the entire wealth in Australia. Most of the wealth is now sitting in retail and self-managed super, this is estimated to be 40%, with 35% then in the retail sector. The rest is invested with institutions and with their proportion of the savings pie getting smaller, they are probably not the best place to raise funds.**

On the other hand, accessing retail and self-managed super funds is very difficult. As we all know, **institutions are looking for returns, but they are looking to get them very cheaply.** They are executing through alternative risk premia, either transacting through the large banks or via some sort of fiduciary sitting in the middle to act as a fund manager.

The difference between what a CTAs might be providing versus the risk premia products of the banks and some of the fiduciaries is that with the latter an investor can get a **complete look-through**, right through the position level on a day to day basis, even it that might be 5,000 to 10,000 positions. That’s important for some of the institutions like the insurance businesses who have to comply with Solvency II or other such regulatory capital risk frameworks.

This type of institutional investor is actually not so much concerned about the fees, but they are very concerned about the equity charges on their balance and managing their duration risk.

At the superannuation level however, fees are a massive issue. We know of very large super funds who have **withdrawn from their very successful hedge fund programs** to go into low performing, low fee options. It’s really quite incredible, because members in these superannuation funds, because of those fee policies, will now get an inferior return or after fee outcome.

As I had already mentioned, the self-managed super funds and family office sector is a very difficult area to find, you could almost compare it to walking through a maze or herding cats when you try to work out the best delivery mechanisms.

In general, managers can work with the large family offices and help building transparent portfolios for them as well. This set of investors are as not concerned about fees, because they are actually looking for net-of-fee returns of 5% to 10% over cash.

Many wealthier people have lifted out their super funds from the industry super funds into a self-managed super, and again, this investor group is difficult to reach, but there are ways to access them.

One way would be to list a hedge fund on the ASX, the Australian Stock Exchange. I think that’s a very interesting way to get around some of the distribution roadblocks, and also you get rid of some of the intermediaries as well. There might be some upfront fees, but on the other hand fees like intermediary fees or fees for the so-called gatekeepers just disappear as they are less required now. So listing a hedge fund may be a very easy and very attractive long-term perspective.

At a retail level the gatekeepers are very much in place and control which funds go onto the distribution platforms. Platforms want daily liquidity. Most of the fund platforms for retail are controlled by the banks. The banks also provide fund products as well, so they have a predisposition to support their own products. But, maybe more importantly, they want a product that are considered safe. So the old adage of buying IBM rather than the new smaller startup managers is true again, even though a smaller manager can perhaps provide the better alpha.

Having said that, investors are very keen on the alternative investments, even down to the retail level. They do want them. It’s just a matter how to manage the gatekeepers. These investors want alternative investments to reduce the equity risk, to reduce the duration risk, and they are looking for alpha.

Australia is home to some excellent managers who have delivered consistent alpha over a long period of time. The market-neutral space in Australia is still generating great returns. YTD (end of October), you should have gotten between 12% and 20% in an Australian market-neutral fund, and over the last ten years 12% to 18% per annum with very little volatility. It's a sweet spot for investors, but under utilized.

We also now seeing offshore investors coming back into the Australian marketplace because the Australian dollar has fallen. We are also seeing some investors from Asia coming back in, with reasonable ticket sizes. We also had some regulatory tax changes which are positive for foreign investors.

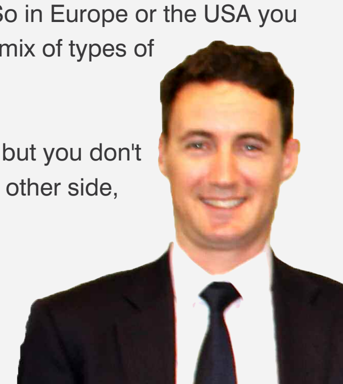
Rob Lance: If you analyze the traditional hedge fund holdings of Australian super funds, family offices and even alternative assets that were placed through dealer groups, you see that still a lot of let's call them "legacy holdings" are investments with household names mostly based in the U.S. These investors may get to travel offshore once a year and possibly receive a visit from a representative every other year. I do understand the safe option, however some of the most attractive return profiles are gained from supporting the growth of a manager and bringing them to scale. In the two plus years I have been in my current role, I could observe some encouraging signs of interest and we have had some success in converting the conversations in to investments. That said, I can certainly say that it's tough for an Australian based absolute return or alternative investment manager facing the domestic target audience.

So people like us here at this table just need to continue having those conversations and help investors build that confidence and the understanding that there is alpha in the markets that can be obtained on top of people's natural beta exposures. The alternative space offers a range of attractive low to no correlation return profiles that provide real convexity to overall portfolio exposures. I would like to see much more support for home grown products that will net benefit institutional investors with the ultimate success of emerging managers.

Chad Slater: I lived in London for 6 years before coming back to Australia to start Morphic, and one of the things that has struck me about the market here is that it's still very young and in a way still in a certain formative phase. In the US, you have 300-400 years of history, and obviously in Europe much longer than that. So if you look at the investor side of the financial markets, you have this mix of old family money, pension money - a very heterogeneous and diversified mix of savings pools.

If for example your family has already been wealthy for about 200 years, you shouldn't really care about the next six months' performance, and the person you are accountable to is probably sitting down in the hallway from you. So this type of investor follows a much different outcome-driven process, because what matters is ultimately true performance and not 'career risk'.

Looking the investment manager side of things, we also know that **new managers on average generate more alpha than old managers, and that small firms on average generate better alpha than larger firms. Multiple studies from across the world, across multiple time frames, have proven that, and this gap continues to exist.** So in Europe or the USA you have firms like NewAlpha that focuses on seeding hedge fund startups. Again, a heterogeneous mix of types of funds.



And then we look at Australia which is this "weird" place in the sense that there is a lot of wealth, but you don't have that much "old" family money - it might be two, three, four generations old, but then on the other side, we have this mandated superannuation system that was set up over the last 25 years.

Now, the US also has a mandated system, which is the 401(k) system, but you are ultimately responsible for you putting money into your 401(k) and manage it. We have an intermediated system.

So it's your money, but it's run by someone else. This is also unlike, say, Singapore and Norway, where it is not your money that goes in, but the proceeds ultimately go back into the pension pot for the country.

But we in Australia have this system where everyone is saving, so people who live across the country have their savings managed by people they have never met, and this is a **classic agency problem.** If I was to be harsh, very few of those industry superannuation trustees will probably ever get sacked, and because they will never meet their end client, that client will never know whether the decisions on managers or asset allocation made on their behalf were well judged.

So **if you think of that as a backdrop, all the current outcomes or our system make a lot more sense, or become a lot more explainable. Performance is somewhat irrelevant, fees are what you can control, and the safest course of action is to choose the same allocations and managers as everyone else, reflecting the asymmetry of risks large pension funds face.** And it's also why those large industry funds typically don't go for a new or emerging fund managers.

This is the institutional backdrop that has existed here since the inception of superannuation. It's not great for clients, but it's a natural and probably unintended outcome of the system that we have built.

The good thing is that, as Daniel already mentioned, investors who run a self-managed super are taking a lot more control back. It's quite interesting that there have been **no net dollar inflows in the institutionally managed super funds in Australia over the last three or five years.** So any increase in assets has come from market returns, and therefore their percentage of that pension pool is shrinking.

Wealthy individual investors, this self-managed super segment, on the other hand do care about who they invest with; they do care about returns, and they want the managers to make choices about asset allocation because, really, when you are on the golf course, are you actually that interested in trading S&P futures? These people do say to their fund manager, "you work in the markets, you decide whether you need to carry a bit more cash or whether you can short this or that," which is completely different to that consultant model, which is: "For me to justify my existence I need to make asset allocation decisions... If I just said to my clients just to go buy some ETFs, then why would they use me?"

So I think our industry is at an interesting tipping point in Australia. Hence why I believe Australia is not a bad place to be starting up or trying to build a business in the asset management space despite the institutional issues we are discussing. It is after all the fourth largest pension market in the world and growing at 10% a year.

I also believe our definition what is considered an "alternative" investment will change a bit in the sense that alternatives and long-only is going to start coming together a little bit more. It was a 'silo' approach because of the traditional makeup of the industry that we just discussed.

So there are many interesting things happening in Australia at the moment.

Stefan Chytra: The only things I have to add to what has already been covered is that maybe it is inappropriate to classify the issues as recent trends. As far as I can remember, the issues haven't changed in the 15 years I've been involved in the alternates industry. We were discussing these issues then, the same as now.

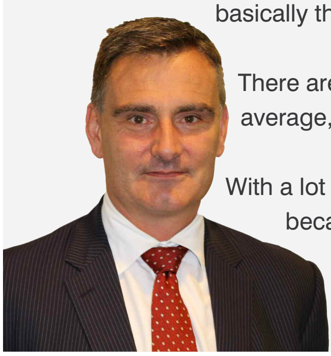
The other point is that maybe the reason these things haven't changed in the past 15 years is because they haven't needed to, as the prevailing investment backdrop within Australia has been more favorable for long only investment styles than in other developed markets.

For instance, until recently the ASX had been one of the strongest markets in the developed world with only limited fallout during the GFC. Property markets likewise have also performed well. And importantly Australian interest rates have been higher than most anywhere in the developed world. Hence, investors haven't been forced to look at alternatives to satisfy their risk objectives as has been the case overseas. Looking forward these factors appear to have changed, although we have said that before.

John Maddalena: I generally agree with what has been said. One thing I would like to add is that we have to make a distinction between the superannuation money and the family office money. Family offices are very much focused on absolute return and much more actively managed, whereas institutional superannuation is, I guess, a bit stickier, in the sense that people just put money into a fund and walk away.

Family offices on the other hand want to know what they are invested in and generally favour boutiques, because they do want to understand what they are investing in. They don't just want a fund to be a black box where they cannot see where the money is going. Family offices also want a clear understanding of the philosophy of the fund.

Daniel Liptak: I think an interesting thing is happening when people have reached a certain size in their superannuation, they take it out of the institutional funds and are looking after it themselves as self-managed super, similar to a family office, so basically they have got the same objective of absolute returns.



There are problems with that, for example we all know that 90% of all drivers believe they are better than average, and probably also 90% of all investors think they are better than average.

With a lot of the larger accounts becoming self-managed super, an issue for the institutions is forming because they now have mostly rather small pools of money, lots of accounts with smaller balances. The larger balances are rolling off a lot earlier faster than they had expected. And I agree with Chad, there people are now wanting to have control because they are looking for a better outcome.

Damien Hatfield: I was sitting in a presentation with one of my managers to an institution, and the discussion got around to the hedge fund industry's performance since the global financial crisis, and of course the performance of the global hedge fund industry hasn't been great.

There has been little alpha generated, and performance has, depending on the respective strategy, in most cases not outperformed the underlying benchmark that maybe an institutional investor may apply. This seems to be the typical discussion probably a lot of us end up having.

A lot of people here in Australia who have actually invested in hedge fund strategies are the multi-managers or Superfunds, and they are actually under pressure from their investment committees and their investors, because of this lack of performance.

Performance has been comparable with what people in Australia get here on their cash, so people have started asking when will this improve? Would you agree that performance hasn't really delivered?

Daniel Liptak: I am going to answer this one quite quickly. Yes global hedge funds have disappointed a number of investors for the last two years, but we also need to look at which funds the Australian investors are invested in. They are generally in the top 100 global funds. **Those top 100 funds, if we look through their position level data or through their regulatory filings, we know that they are all in the same trends.**

I mean, if you buy one of the top 100 funds, you are getting the same as with any of the other 99. In general, you could say that they are not doing anything different, they are not going out for informational advantage.

If we rewind back and ask, what is a hedge fund? A hedge fund should take advantage of informational advantages, but these guys are now so large that as a consequence many of them trade the same. The best thing to do if you want their holding is just buy a Goldman Sachs ETF that simply has the top 100 holdings in it and just use that as a direct holding. It's simple, liquid, cheap, and you can also short it. You also get exposure to positions of activist hedge fund managers who have got very long lockups. So maybe it is because they are all trading the same stocks that global hedge fund investors are getting poor performance.

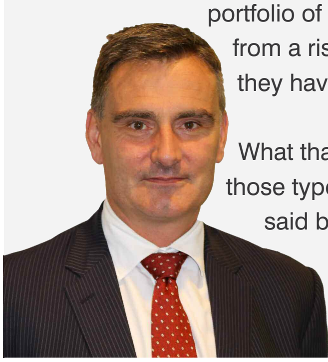
If we have a look at the Australian hedge fund industry on the other side, performance has been absolutely tremendous this year. **If you are not getting a double digit return with Australian hedge funds, you just haven't been looking, you haven't invested in a hedge fund here.**

So, contrary to the global landscape, the Australian hedge fund environment has always been good. There is a lack of competition and demand. That means if we drill down and examine what the funds are doing down here, we find that they are all different, not one of them really is similar to any of the others that are managed down here.

If we look at just the Australian equity piece, also within the Australian shorts, even if they are doing long/shorts in the top 100, the funds are not competing against each other. The market is still reasonably small, so there is room for a real differentiation. Strategies have low correlation to the market, low correlation to each other, and consequently they are all getting decent outperformance.

There are some more sophisticated strategies like Stefan's, which has a very different return series and return drivers, which is much more complicated for many investors, but also serves a very good purpose in a portfolio.

So what we can offer down here with our homegrown hedge funds can be very attractive. For example, I have just put a portfolio of eight local funds together and sent it to our colleagues from Gottex in Switzerland to get it looked at from a risk perspective. Now, our analysts in Europe couldn't actually work out what was going on, and said they have never seen a portfolio behave like this.



What that also means is that they and probably many other investors globally are not looking down here for those type of returns. And likewise, the investors here have unfortunately also typically gone offshore, as we said before, maybe not only for the top 100, but possibly also for the airline miles...

[laughter]

Damien Hatfield: Still, my point is that at the moment, the institutional market here is somewhat suspicious of hedge funds. We don't see Australian institutions falling all over themselves to invest in hedge fund managers, and a lot of it has to do with the fact that Daniel raised that they have been invested with the top 100 offshore and that their returns have been rather weak, some of them may argue actually since 2010.

So in a way that is a challenge, at least if want to target the institutions down here, which are, as Stefan mentioned, led by asset consultants that are very fee driven.

Matthias Knab And they have also don't have the talent pools of talent to be able to look through hedge funds as well.

Damien Hatfield: On the other hand, I think it is fair to say that most of Australian self-managed super exposures are very heavily weighted towards Australian equities. That could become an issue going forward should our equity market come under pressure. Some people are suggesting that Australia is going to be moving into a recession in the next 12-18 months. The resource and commodity booms are over; we may get some headwinds here in Australia.

Other people are talking about volatility increasing, and that could actually increase returns. Maybe hedge fund managers will have another renaissance down here. Also increasing interest rates could play a role – we could see global rates start to go up as a result of the US Fed, and **we know that in a rising rate environment, hedge fund performance tends to improve.** Still, on aggregate, given the hesitations of the larger institutions regarding hedge funds some of them will actually reduce their allocations, I am not sure about the outlook for Australian hedge funds, unless there is a change in the near future or medium term.

Daniel Liptak: I think that also going forward the performance of Australian hedge funds will stand out. That could change perception over the mid to long term.

There are structural reasons for the observed performance. I also believe Australian long/short managers will do quite well down here compared to other places. Borrowing stocks, for example, is still pretty well priced down here. And you rarely get a borrow recall, because it's an institutional market, so there are plenty of stock you can borrow, even on heavily shorted stock. It's all good collateral and you never get recalled, which makes it a nice market to work in on the short side.

And two, the managers here have in a way their own group think. They all go to the same meetings, they meet with the same management, and so you get this persistence in performance in both directions. That is a difference to the US or the UK. I define efficiency as a heterogeneous mix of views, not the number of people involved, which some people say. If you are living in Omaha, you are going to have a different view to the guy living in Chicago, Boston, or in Dallas. This means you get a much wider range of views on a stock. It's the same in Europe, a Geneva-based guy is going to be different to the London or Frankfurt based guys. They are just all a little bit different, whereas here, managers are all from Sydney or Melbourne.

So you get this effect that you would call post-announcement drift, which shouldn't exist and doesn't exist in the US where indeed there is no statistical evidence oft post-announcement drifts. So if a stock loses earnings, it may go down 10%, and the post-announcement drift is the drift in either direction afterwards.

Australia has that effect, which is free money basically. There are just not enough people shorting the stock compared to the number of people who long the stock. It's just a completely out of kilter to market, which makes it a good place to work in.

Once you get over the top 20 stocks, you even find some small offshore hedge fund managers actually participate in those, also because as I mentioned the stocks are easy to borrow, but it will probably not move the needle for a very large fund manager. So I believe Australia will continue to be a very nice spot to get some alpha.

John Maddalena: I agree that the Australian market is relatively small, and so there are not that many stocks that a global hedge fund would want to touch. In terms of the outlook for the Australian economy though, I am pretty comfortable with it. I actually think that we have already been beaten up quite a bit. I mean, how much lower can commodity prices go? Maybe they have got a little bit further to go, but I don't think the world is going to end for Australia. I think things are going to improve.

So there certainly is an opportunity here for contrarian investors, because everyone is saying it's going to get worse, but you have to actually look at how and where things could get worse, and when you look at that more closely, I can't actually see how much more damage can be done within the Australian market.

I believe that there opportunities here at the moment, but to see those you may have to look beyond the superficial. So I am very comfortable investing in Australia at the moment. We have the same issue with the currency: the Australian dollar might go down a bit further, but it's going to come back.

Rob Lance

I totally agree. Our economy still has weapons at its disposal. The Australian dollar may pull back to the low end of its long term range to around 65 however we are already seeing signs of some of the benefits of the cheaper dollar coming through. We can continue to ease interest rates too if real growth is not forthcoming. We do have some flexibility that many other economies don't have at the moment, so from that perspective, it feels like a good base is forming.

Daniel Liptak: We actually take a very active approach to running hedge fund portfolios, and so we do rotate them around, given where our views are on the market, and our forward-looking views, or specifically how those forward-looking views match up to different strategies.

Back in 2009-2010 we made money for our clients. We took long beta positions in credit. This was during a period when most investors will still unwinding their credit holdings.

More recently a very good trend for Australians has been going long US dollar assets and short resources here in Australia. Again, almost another free lunch. It's a matter of actually then picking those timings and looking at the strategies that are working out for those particular markets.

We believe that you need to be much more active in running a portfolio for hedge funds, and have in mind that for some hedge funds being that active is not always possible when it takes you 12-24 months to come out of certain strategies.

That is also one of the reasons why we would prefer to be with small to mid-size managers. So if we can get our views right on the market – we know that we are not going to be right all the time, but we have a consensual view – and we work on that and then build portfolios that allocate strategies that will work into that market as we see it going forward, we think that's a better way to invest, rather than a passive approach, which many, particularly in Australia, have been following.

I think the other approach that Australians have taken is more on a risk parity approach to build portfolios, particularly in the more liquid end, and that may likely end in tears, particularly when rates do change.

So where does that leave us right now? We like relative value across pretty much all strategies; equity markets, credit, and fixed income. We don't ever bet against the Fed with respect to what we are doing here.

Obviously, Australian clients would like the Australian hedge funds, because of the out-performance, which I have already mentioned.

In order to be able to rotate funds and to be able to be on the front foot so to speak, we need full transparency, at least monthly, that goes into the very interesting risk platform that was built independently. That allows us to do a lot of stress testing of the portfolios and to be able to move our views around and to look at different markets. This becomes very important if you are looking to extract the most out of a fund manager or out of your portfolio.

Again, coming back to the global hedge fund performance, I agree that the average performance is well average, but with the right tools, the right people and the right procedures you can build something that's a lot better.

John Maddalena: The family office space is a very different space. The key objective is capital preservation, and then also when dealing with a high net worth family you want to be able to explain what you are investing in. There are simple hedge funds out there, but there are also some complex ones like Stefan's, and it makes it very hard to select a hedge fund, because you also don't want the ordinary returns. So this can be a challenge when a manager is doing something special that would really give you some alpha, but then you struggle to explain it to the families in a way that makes them feel comfortable about investing in it.

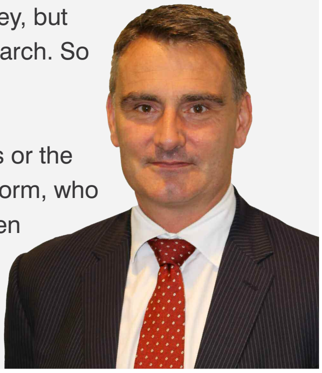
That's not to say that the families don't get it, but usually these families have run businesses, and that's what they know. They are not specialist investors. There is a certain education process that happens when starting a family office, because investing is not necessarily the family's core competency. Therefore our task as the manager of the family office is to find a fund that gives them good alpha and to be able to explain how they are doing that.

As I said, you want them to drive home every night knowing that their money is safe and not worrying about what they have invested in. You don't want them wondering. That is a very important trust factor that you have with family offices, the whole business is built on a principle of trust.

Matthias Knab So we spoke about the institutional market that is controlled by the consultants to a great extent. When someone is looking to get access to the Australian retail investor base, which as we know includes the wealthier self-managed super funds, you also have to get across the gatekeepers. Can you tell us more about those gatekeepers for the retail market?

Daniel Liptak: 80% of the retail money is looked after by the banks, and the rest is on a few independent financial planning groups or independent boutique financial platforms.

What plays a role is not just the fact that the banks own those platforms, but there is an insurance reason for needing a gatekeeper. Having an insurance allows financial planners to invest with their client's money, but they need to have insurance, and getting that insurance does require some sort of independent research. So there is a requirement for gatekeepers there.



For managers wanting to get on the retail platforms, it's a matter of actually finding the right investors or the right financial planning groups, whether they are using a retail bank platform or an independent platform, who will have interest or has interest in hedge funds or alternatives, gathering demand from them, and then finding an experienced researcher, a ratings agency. Once the manager has that rating, he then will probably have to put a lot of pressure on the platforms to get his fund listed there.

So listing a fund on a retail platform is actually not a simple task. It can take three years or more, but once you are on there, it can be quite beneficial and it can just bring you money each month. I think Damien has seen that in the past.

It is also difficult because you have less and less appetite from those platforms to look for new and small boutique managers. Even though those tend to have a better alpha, but that's not really what the platforms are wanting. The platforms don't want risk, and they prefer to reduce live risk by having something that's been there for a long period of time, with a steady track record and a large balance sheet. This appears to be their investment priority.

Of course that is a pity, because I believe there are some interesting structures for people to look at in Australia.

Stefan Chytra: We have largely avoided actively marketing into Australia so many of the issues raised haven't been pertinent for us recently. Fortunately, organic growth from elsewhere has satisfied our modest capital requirements over the past few years.

Besides having alternate sources of funds, reasons why we haven't marketed in Australia include limited resources, our fee structure, ticket size & our fund strategy.

Like most boutique businesses we run numerous projects, so we haven't focused as actively on marketing, full stop. For us what's most important remains our ongoing research and technology. Maybe it's naïve but I believe that if we behave with integrity & our performance remains decent then investors will come. Additionally our unusual fee structure (0 & 35) incentivizes us to focus on trading profits more than growing FUM.

The other issue in marketing our product within Australia is the nature of our strategy. We aim to deliver absolute returns with a long correlation & long volatility profile via derivatives trading. This certainly isn't easily understood by many professionals let alone retail investors such as SMAs. There are many people in Australia who do understand what we do, but the business they represent tend to be allocating larger clips than suitable, given our current size. We are engaging with these this investor group in the hope that when our fund has grown to the required size, those investors are comfortable to commit.

A differentiating offering like ours may complicate sales in the short term, but I believe that is how we and other managers build a long-term sustainable business. We view our product as truly additive for both new investors and those with established hedge fund portfolios. We don't need to compete against the established managers in an investor's portfolio on a like-for-like basis but just on the merits of our strategy and how it fit within their portfolio.

Matthias Knab And you are very conscious about your capacity?

Stefan Chytra: Yes, absolutely, as along with returns our capacity is fundamental to driving the long term economics of our business. As such it forms an integral to our ongoing research & technological rollout.

As traders we don't want to leave foot prints in the market when we trade as it risks leaking our IP or people reading our flows. Also, we don't want to add inferior strategies with lesser Sharpe ratios just to grow our capacity. So adding capacity needs to be done carefully. Furthermore, to protect our existing investors by aligning our growth objectives with ours, we have a 0 & 35 fee structure, as it keeps our interest aligned. Additionally it also means that we don't discount our fees or trade equity for FUM as our capacity is scarce.

John Maddalena I will just quickly ask a question of you, if I came to you as an unsophisticated "sophisticated investor", how would you explain to me what do you do and how would you sell it to me?

Stefan Chytra: Well it isn't an easy sell, and fortunately for us, unsophisticated investors are not our target market. However, as a starting point I would always explain what our fund structure is and what that means. Basic things like how our independent administrator, directors & auditors protects them. I want those investors to understand how a proper structure protects them. There are always risks in investing, but those risks should only be market risks for which they are adequately rewarded, not operational risks.

Explaining the core of strategy to unsophisticated investors is difficult for us. But likewise I have the same confusion when I need to get my car fixed. I don't really understand what goes on under the hood. Nevertheless, I hopefully can still judge what sounds reasonable. We also have some basic examples explaining the concepts, and we also can explain why market inefficiencies can occur. However, I'm not going to describe those concept stories on the record in this forum as there is no upside for our business or for our existing investors.

We don't apologize about being protective of our intellectual property. This not only protects our future business we also owe it to our existing investors as it protects their future investment returns.

In summary, I guess we are just trying to demonstrate that we are trustworthy; we know what we are doing, and the basics of the product, when our fund will perform best and what could go wrong, what will drive that loss and how we manage this risk.

John Maddalena And I am not disputing what you are doing, I mean, you are obviously successful at what you are doing, but for us that would be a black box to some extent, because we can't see what you are doing. For us that was a problem, because if we couldn't sit down with our principals and explain to them exactly what we are investing in and why...

Stefan Chytra: Yes, fair enough, our disclosure may not satisfy your needs. Fortunately the market is large and different investors have different criteria. Certainly by disclosing more we can raise money quicker, but we would also risk losing our edge faster, so we have to balance these two factors.

Of course, as a manager we have different disclosure levels dependent on our comfort with the clients. Some clients have no conflicts with our process and limited ability to replicate our processes. For those investors it's easier to give greater transparency. However, with other investors we need to be more cautious. It's not uncommon for investors to have internal trading activities which could be in conflict with ours. And while they may be upfront in disclosing their Chinese walls within their organization, people still move jobs or chat after a few beers. Mind you, the best investors from my experience understand the product enough to know what needs to be disclosed, and what is too close to the bone. Although in this case we are not talking about un-sophisticated investor as you were asking about.

Another thing is that we also assume that the people most interested in reading our marketing documents are our competitors, so there are different disclosure levels for written work which, frankly, can end up anywhere, and what we are willing to disclose verbally.

John Maddalena From a family office perspective, as I mentioned, we as the manager or allocator of a family's money want them to drive home everyday knowing where their money is and that they can liquidate tomorrow. They know the value of their portfolio and I can get out of this tomorrow, and it's done. While it's not the same for every family office, in our model, black boxes didn't work.

Damien Hatfield: John, I often experience the same with a lot of people that we approach and market to in the institutional space. Hence the people we meet will have to present a product to their investment committee, and if it's somewhat opaque or not very transparent, even if the returns are very good, they still won't invest, because they have to have this level of understanding.

But at the same time, I always laugh, because over the years I have seen investors describe that they do very incisive due diligence, and they go into great detail, they do background checks, but then when they see constant 20% returns from the particular manager, they hang the due diligence and they invest. I have seen that happen over the years.

Madoff is a great example. He raised a lot of money off the back of performance only, and if anyone asked the question, could we conduct due diligence, they were shown the door. And there are still managers around that do that.

Stefan Chytra: You are certainly right, investors have different requirements and we never expect to be able to satisfy every information need. However our disclosure can never be compared to Madoff as Madoff not only didn't really disclose his trading strategy but he also refused to give clarity to how the operations worked. We welcome operations questions and we are also willing to provide contact details with our key service providers so the investors can independently validate what we say.

Just as all managers are different, all investors differ in how they need to be managed. Some of the smaller less sophisticated investors only need a high level understanding of our strategy and are happy to rely on our track record & resumes for comfort. Then you have the most sophisticated investors who are often ex-colleagues or counterparties and are familiar with our trading style, risks and sources of alpha. Interestingly they also tend to understand what's proper to ask & what we should be will be willing to disclose. Both those investor types we can get over the line.

A more complicated segment for us is what I call the mezzanine sector which is maybe where your family office falls. They are professional investors with solid finance knowledge, but it tends to be in more traditional investment styles as well as PE and the like. These investors are difficult for us, especially when they have to explain our strategy to a third party such as an investment committee, as Damien also mentioned. But you are right, John, we haven't had a lot of investors similar to you, which unfortunately is an important investor base for small boutiques.

Damien Hatfield: Getting back to discussing gatekeepers and retail distribution, one of the things that we have been doing at Ascalon is actively seeking partners to take advantage of our parent, Westpac Bank's distribution channels. Westpac bank itself owns a number of branded institutions, BT Solutions, BT Investment Management where they are a 30% shareholder, St. George Bank, St. George Private Bank, Westpac Private Bank.

So there are a lot channels for retail or quasi high-net worth distribution. At the moment we are negotiating with an offshore fund manager to be their distribution partner with the initial focus being on registered fund distribution here in Australia, So if an offshore fund manager wants to access the Australian marketplace and they approach us, the very first thing that we do is to go to the retail-aligned dealer groups within Westpac, specifically BT Financial Group. After presenting we look to feedback as to the retail or channel salability of that manager.

And that can be the kiss of death, because if they don't satisfy certain criteria, we are not going to get to the next step with that manager. There are a couple of commonalities or criteria that are fairly obvious. One of the very first issues is liquidity, as all these retail platforms require daily liquidity. So if you haven't got daily liquidity, you can possibly get away with monthly liquidity, but you need daily pricing, with preferred daily liquidity. That means the underlying assets have got to be very liquid.

The next thing is fees. What's interesting here is that in Australia the fee structures in retail distribution or registered trust distribution aren't actually that low. Some of the fees that I have looked at are probably greater than 100 basis points and there is any combination of 10% incentive fees all the way up to 20%, even in long-only products. There are long-only products that use incentive fees as well.

What we tend to find is that if a manager cannot cope with those two major constraints – fees and daily liquidity – then they are not going to get a registered product on to the various distribution platforms.

As to the next step, you need to develop what they call PDSs, a Product Disclosure Statement, which is the document that's actually given to a retail investor. Once you have the registered PDS, you then have to go to a rating firm like Zenith and Lonsec and get a rating. The rating process is a big component of putting a product together, and of course you'd want to get a reasonable rating. A new manager is only going to get an approved rating. They are probably not going to get a buy-rating or a high rating initially, because they haven't had the product up and running for very long period. So once you have the rating, then you can go to the dealer groups. You then have to get the product on to the different admin platforms and then the dealer groups have got to support the product on the platforms.

We have found that the cost of putting those products together is actually higher than say UCITS funds. In fact, there are a number of offshore products set up in a way where you create the unit trust here and then you actually buy the UCITS product. So the Australian fund is just a feeder and unfortunately you get the double whammy fee in such a structure, which is unfortunate.

If however you can have a group that is able to seed their own products, then you eliminate the double whammy of the admin cost, so this is a much better way to go. So with whomever we discuss going this Australian retail distribution path, we do recommend that the group or the manager is able to seed the product in the order of $40 to $50 million. That will be enough to cover all the fee structures, but also shows a lot of commitment from the offshore group if they are prepared to commit $50 million for that particular vehicle.

Then I reckon that it takes at least two to three years to start to getting real fund flows. So just to repeat, **getting a hedge fund on a retail distribution platform is a major undertaking and quite a long commitment, but it's also a very profitable commitment, because once you get on what's called the APLs, which is the Approved Product List, your fund will then sit in model portfolios, and from every retail dollar that comes in you may be allocated 1% of that dollar.** So that makes it a fantastic thing because the retail fund flow is massive and keeps growing all the time. But again, from the manager's perspective it's a huge commitment, but if everything is aligned and everything falls into place, you end up with a huge fund flow out of Australia.

We are basically in negotiation with a $10 billion Asian fund manager and it looks as if we will be moving forward with that particular group. We will help them develop three unit trust feeders and focus on Westpac distribution channels. We will then also take that fund manager with the registered Australian products to the domestic superannuation fund and institutional market. There is a distinct trend in Australia to go back to registered products rather than Cayman Island fund structures, whereas back in the early 2000s or mid 2000s for superannuation funds it was tax-wise actually more beneficial to invest in the Cayman Island fund structure.

Stefan Chytra On the flipside, isn't it problematic for offshore investors to invest into Australian unit trust?

Damien Hatfield: That's correct. For an offshore investor investing into an Australian unit trust would actually create a tax record here, and nobody offshore wants a tax record with Australian authorities, so that's a major issue. There is also withholding tax, which is applied to the income derived on Australian assets in the fund.

Daniel Liptak: However, we also have to point to the fact that there is a **long history of offshore hedge funds raising significant amounts of money in Australia**, and in fact a number of them were lucky to have had Australia as a springboard to then raise money in their homeland. A good example is Man Group and AHL during the 1990s, with a number of their structured products. At one time, a very significant part of the groups's assets were sourced out of Australia.

Another group that is now very, very large and globally successful is AQR. AQR had a very early win here in Australia with providing international equities for Westpac, and that became one of the cornerstones for raising a large portion of their assets early on. So those two groups have been very successful in their early days in raising their profile and getting large AUM numbers here and then being able to continue their growth from there.

Other groups that have been successful in Australia in raising money include BGI, which is now a part of BlackRock and has multiple billions of dollars out of Australia, and also GMO with their Global Macro Fund. Other firms have started their growth overseas and then came here also were able to raise more money here. Examples of those groups would include Winton, which has raised over a billion dollars on the retail platforms. Aspect is also raising significant monies, and then there are fund-of-funds and advisory groups here in Australia that are doing quite well as well. So there is a long tradition for offshore managers to raise money here, and some even early on.

So all of this can be done, but it does take time and it needs some patience. Damien has charted the course very well, and it can result in a significant growth. In fact, one of the groups that Damien has represented raised a significant part of its assets comes from his clients down here in Australia.

Damien Hatfield: That is right, I also I represent a group here in Australia, a $13 billion US fund manager, and probably about 30% of their AUM would be out of Australia now.

I always tell all of the groups that approach me for distribution in Australia that at least 25% of their total AUM should be targeted from Australia. So for a $10 billion group, $2.5 billion should be raised out of Australia.

My premise for that is that we are the fourth largest pension fund asset base in the world and therefore if you are a global fund manager, or aiming to be one, you should be targeting Australia to raise money, even though it's difficult and it's a huge commitment, but the fund flow will be huge if you are a success.

Matthias Knab Are there any other relevant aspects about Australia and the industry here that we haven't talked about yet?

Daniel Liptak: The regulations have changed for hedge funds in Australia. A while ago they weren't tightly regulated and treated similarly as other investment funds. This is changing and their offerings are becoming more and more regulated. It's very prescriptive, whereas before it wasn't.

There is now a definition of what is a hedge fund in Australia, and it captures things that aren't even hedge funds, such fund now need to go and apply for an exemption to not be treated as a hedge fund, if they want to distribute to retail.

This means we all have to watch the regulatory environment here in Australia. I am not sure but a lot seems to be driven by a kind of fear of hedge funds, because in some people's perception these are structures to be feared and avoided.

Chad Slater: We are on the other side in that we are not a Caymans based fund and chose to go the Australian unit trust structure offering that investors are more familiar and comfortable with. To be honest, I wouldn't call us a hedge fund in the globally used sense of the word, even if we use tools that people who work in hedge funds use, namely shorting and leverage, as my product looks like equities and is highly correlated to equity markets.

I still think there is confusion between the tools that someone uses and the return profile they generate from those tools.

To me, and you guys may disagree with me, a pure hedge fund has leverage; uncorrelated returns; and a cash plus a risk premium benchmark. I would say CTAs; market neutral strategies, stat arb; global macro and a few of others could go in the 'true' category, but there are a lot of strategies that shouldn't really be in there, like us who just use some tools that hedge funds use.

In essence clients end up getting beta or factor returns and charged for alpha for these strategies.

So, returning to Daniel's point on the institutional markets structure and the view of hedge funds, I believe this is amounts to a **battle we are seeing emerge between Australian Super** on one side with their view that "managers aren't great, they are expensive, and they often underperform, and we can do it cheaper in-house", and then on the other side you have the $A130bn Future Fund, who does nothing in-house, and pays quite a lot in fees to some of their managers. And this is great, because we will clearly get one of two outcomes here: which one will deliver better risk-adjusted after fee returns? I think I know which one it is.

Daniel Liptak: You are right. And there is more to that, and we already mentioned that. There will be **significant agency issues for those institutions who do a lot of investment in-house.** They may have problems with their internal managers who will be looking after their jobs and careers, first and foremost, rather than taking risk, so that's number one.

Number two, and I am not sure that applies to everybody, but people who are generally very, very good at something possibly feel that they can probably do it themselves in an organization that they have built or formed, rather than working for somebody.

Number three would be that an investor may want to move investments into strategies and markets at strategic moments. As an example, at one stage we were invested in distressed credit and then moved into equity based strategies. But if you have just built a team that just does Australian equities, and the Australian market may seem heavily overvalued, it is unlikely that an institution will reduce their domestic equities team to make a tactical tilt to International equities. So for all such reasons it becomes difficult to be flexible.

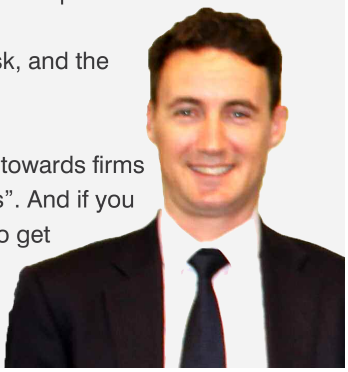
Chad Slater: On top of all this, I also think **one of the two groups has misunderstood operational risk as opposed to investment risk.** For example when your trader front runs or something like this when executing, or they may fail to fully understand operational risks around the middle and back office,

Previously it was never your risk, but now it's your risk, and I wonder how many trustees have truly thought about those different risks. And it will happen. It happens in our industry everywhere at some point in time, no matter how hard you try.

There are perverse incentives where people make poor choices, no matter what compliance you put in place.

So I hope these firms understand the exogenous risks which has nothing to do with investment risk, and the damage that can do to their own brand.

Also, just returning to Daniel's point on individuals who believe they are good enough, gravitating towards firms where they have more control. Charles Munger has a great saying that "incentives drive outcomes". And if you set the incentive of a very low salary or very little bonus, that doesn't mean you are always going to get bad people, but you are setting yourself up for a poorly aligned incentive structure in the long run, where people have no "skin in the game".



John Maddalena It's certainly going to lower the average.

Matthias Knab Damien, I know you are doing a lot of seeding or incubating at Ascalon, which is an important activity for the industry. Can you tell us more about what you are doing here in Australia?

Damien Hatfield: Ascalon is an early investor, and yes we could be called an incubator. We have a fairly large incubator community or early investor community here in Australia like Pengana, Fidante, nabInvest, Treasury Group, so there are quite a few, and even a couple more that are looking to get into the business.

Ascalon is one of the oldest and probably one of the more experienced and successful early investors and incubators, and our model is slightly different.

We operate out of Hong Kong and out of Australia. Here in Australia I try to develop a philosophy where we invest in or have interest in more traditional strategies, the more vanilla or simple strategies, as John has previously talked about, whereas in Hong Kong and Singapore we have a number of other hedge fund strategies which also have been very successful. And even though some of the managers are still relatively small, they are now starting to get very good fund flow.

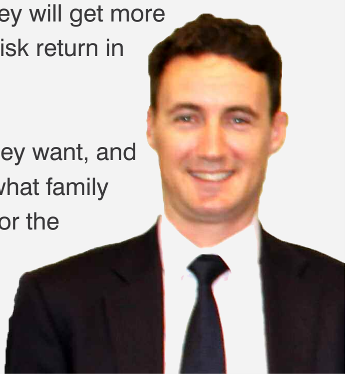
Some of the investments into those funds have been as high as $100 million; a couple of them are getting 10 million or $15 million a month, however, you can't replicate that here in Australia. My view is that it's very difficult to set up a small hedge fund manager, seed the manager with anywhere from $10-15 million, which is what we have done in the past, and then start the marketing process, either domestically or globally, and build that manager up. It's just too hard in Australia to be able to do that.

And that's why I try to get the Ascalon team to focus more on say absolute return strategies; maybe long only, low fee, with liquidity, but raising a larger amount of assets than what you could do for say a restricted capacity hedge fund manager. And I think that's an Australian condition, and it's a little bit sad, because I would love to see a flourishing hedge fund industry out of Australia, but realistically, it's not happening now and I don't believe it's going to happen in the future.

Chad Slater: It is sad in a way. I have worked in Boston, New York, London, and here in Australia. What you can see all over the world is that Australia produces many very good, talented, professional people, not just in the hedge fund community, but across managerial roles, who go overseas. So we have the fourth largest pool of pension money, we have talented people who want to move back home from overseas, and we make it as difficult as possible to try and use that talent.

There is a preponderance here to say, “Why would I use someone locally when Chicago and New York has the best people?” Yes, there is no doubt that there are many great guys over there, but we also do have a natural flow of great people who have learned how to make money around the world and who want to come home, and unfortunately we put up as many barriers as possible.

Though to end on a positive note, coming back to SMSFs, the self-managed super funds, at some point someone may figure out how to herd them. There is a lot of money in there, but as they age towards mid to late 60s, they will get more involved with actually, not the day-to-day running of the investments, but thinking about what the risk return in their portfolio is like.



A family office that’s been around three generations has a bit more experience of knowing what they want, and also here, when these retirees reach a higher age, then they may go out and looking for more of what family offices provide, and suddenly these things combined could create a different type of momentum for the industry. That could be important because a lot of their SMSF pension money – is it around A$500bn? – is sitting in term deposits, Aussie equities and property.

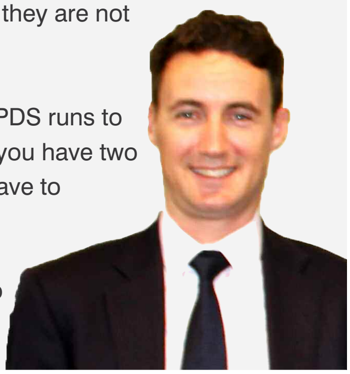
Daniel Liptak: I had mentioned before, **alternative investment funds that are listed on the ASX as Listed Investment Companies or LICs are possibly the easiest way for managers to eventually access several investor segments.**

Having your fund listed also gets around, as I said before, all the gatekeepers when it comes to retail investors and also makes the fund easily accessible for family offices. So that process reduces the drag of the intermediaries, and the costs of the listing is possibly less than the cost of being on a retail fund platform, given the range of fees associated with being on such a platform.

Chad Slater: And mFunds.

While LICs still have to be a company in that sense, mFunds are actually set up on the ASX. Yes, it’s currently long only, but we have spoken to the ASX about putting Morphic on the mFunds platform. They do want to get different strategies on there and ours as a long/short with equity benchmark is a nice halfway house for them to go before perhaps going all the way down to pure hedge funds.

We look like an equity product, so they feel we are not a bad thing to try in between, but currently they are not allowed to, so they have been working with ASIC at the moment to get around it.



Just on the red-tape of applying currently, we have a lot of retail money, so the forms for our new PDS runs to 20 pages to fill in. It is ludicrous. There is currently no online application that can get done, and if you have two funds with the same back office, and you have already cleared your AML requirements, you still have to resubmit all your AML documentation twice.

And if you are using a self-managed super funds, where you have a company as well, you have to send all company documentation. So it’s clearly onerous for retail investors.

But mFunds leverages off the ASX – where once you have a brokerage account, then you have a HIN or a Holder Identification Number. At this stage AML is complete and only has to be done once. So clients can go through the ASX and trade our fund as a ticker on the ASX. For us, we just face the ASX and the money comes through from them, or back to them.

That niche is still relatively small at this stage, but if you want an outlier that could be the thing that breaks the SMSF market into actually moving to the more alternative strategies, something like this could also work.