



Opalesque Roundtable Series '16

SINGAPORE

Opalesque Roundtable Series Sponsor:



Editor's Note

Singapore was rainforest, fringed by mangrove swamps, with about 150 people when the British acquired it as a colony in 1819. It soon thrived as a trading city because it lay sheltered from storms, right at the bottleneck where ships passed from the Pacific to the Indian Ocean.

In 1965, when it became independent, Singapore had almost 2 million people, crowded slums, negligible natural resources, and an economy dependent on shipping. But Singapore's one-party government used this sense of crisis to build a wealthy, modern city by using strict controls. They lowered the birth rate, moved nine of ten Singaporeans into new high-rise condominiums, and developed new banking and manufacturing business while expanding shipping even more. By 2015, Singapore had about 5.6 million people and a high standard of living. Its GDP per capita is ranked 3rd in the world, only behind Qatar and Luxembourg. Singapore has the world's highest percentage of millionaires, with one out of every six households having at least one million US dollars in disposable wealth. This excludes property, businesses, and luxury goods, which if included would increase the number of millionaires, especially as property in Singapore is among the world's most expensive.

Fund formation and FinTech: Singapore's next battles

Singapore's economy is diversified, with financial services, manufacturing, oil-refining as top contributors. For many years, Singapore was, from a cost and regulatory perspective, the perfect Asian hub for fund startups. However today, *the traditional Singapore package of First World operating and living environment at 40% of London costs with a chance to keep a much bigger part of the top-line after tax, is not really the case anymore.* Today, all the countries – including Singapore – are subject to the same regulatory and economic pressure, which means that cost of doing business increase and regulatory requirements are high.

This leads to a **structural change** in the industry as smaller players may obviously not find anymore the benefit of using Singapore for the operations. From a strategic perspective it is clear that the bulk of the global growth will continue to happen in this part of this world, whether it's from China or Southeast Asia, including India. Larger institutional players will definitely continue considering Singapore as the only and best option in South East Asia.

While in the past, Singapore has strategically supported the fund management and private wealth industries, amongst others, it has now also become very visible which battles the country has chosen next. Singapore has become one of the best places to start a **FinTech** globally because of the regulatory environment, favorable Government policies and the incentives and infrastructure support available here. The MAS has a dedicated FinTech unit which goes out of its way to woo the regional FinTech companies to start up here and to promote Singapore based FinTech firms. For example, during the Formula One race, the regulator arranged for a roundtable of around 25 CEOs of global banks and presented the top FinTech ideas from Singapore. Another battle is Singapore's new **Variable Capital Companies Law** which preps the jurisdiction to compete with Luxembourg, Ireland and offshore jurisdictions such as Cayman Islands.

The Opalesque Singapore Roundtable, sponsored by Eurex and SANNE, took place in November 2016 in Singapore with:

1. Noor Quek, [NQ International](#)
2. Valérie Mantot, [SANNE](#)
3. Gaurav Bansal, [Salmon Global Fund](#)
4. Mike Coleman, [RMCA](#)
5. Peter Fricke, [Eurex](#)
6. Rajesh Sundaresan, [Lighthouse Canton](#)

The group also discussed:

- Why Singapore-based hedge funds have recently outperformed their HK-based peers
- What is the difference between financial hubs and wealth centers?
- How are millennials changing how Asia's family offices are run?
- What opportunities do fund managers see in ASEAN?
- Why the proximity argument of Shanghai and Hong Kong versus China will be waning over time
- Quality of Life: What happened to Singapore's trump card relative to Hong Kong?

- When it comes to populism, is Asia on a different trajectory than the rest of the world? What will this mean for investment returns?
- An in-depth update on global commodity trading by Mike Coleman: Why buy-and-hold does not work
- Why gold is a monetary asset, and not a commodity
- Why robo-advisory can be even cheaper than ETFs
- Eurex extends trading hours up to 23 hours. Which alternative assets listed on Eurex returns over 50% p.a.?
- Have we reached the high point of globalization and open markets?
- The world from a Silicon Valley perspective

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Matthias Knab, Gaurav Bansal, Mike Coleman, Valérie Mantot, Noor Quek, Rajesh Sundaresan, Peter Fricke, Roland Schwinn, Executive Director, Eurex

Introduction

Peter Fricke
Eurex

My name is Peter Fricke. I work for Eurex, the derivatives trading part of Deutsche Boerse Group. We offer trading in liquid futures and options contracts to a variety of sell- and buy-side clients in the region. Heading the Singapore office, I am responsible for sales activities in South East Asia and Australia, as well as the equity and index derivatives sales across Asia.

Rajesh Sundaresan
Lighthouse Canton

My name is Rajesh Sundaresan, I represent Lighthouse Canton. We are a Singapore-based company with three verticals; asset management, multifamily office and FinTech. In our investments, we deal with all asset classes, across the spectrum, liquid and illiquid.

Gaurav Bansal
Salmon Global Fund

I am the founder and portfolio manager of the Salmon Global Fund, an ultra-diversified global macro fund focusing on tail risk management. I have been researching tail event related severe drawdowns that have occurred in the financial markets going as back as the 15th century and received a PhD for developing a novel hedging strategy for managing a portfolio through tail events. I find tail risk management especially relevant today when such events are ever so frequent and take away multiple years of returns in a short period of time.

Mike Coleman
RCMA Asset Management

My name is Mike Coleman from RCMA Asset Management. We run a fund called the Merchant Commodity Fund, which is a long/short discretionary commodity fund. Having launched in 2004, we are almost as old as Opalesque.

Noor Quek
NQ International

I am Noor Quek, Founder and CEO of NQ International. I have been in the financial services sector for almost 45 years, with about 35 years or so in investment banking, corporate finance, and private banking covering Asia.

At NQ International we do not manage funds; we look after UHNW clients' interests. These could be family offices or big businesses wanting to establish or grow in Asia/Middle East. We also offer a bespoke senior level executive search business serving mainly the financial services sector. We cover Asia, Europe and the Middle East, working on a B2B basis co-operating with different business specialists. Separately, I sit on several boards, including charitable boards..

Valérie Mantot
SANNE

I am the head of SANNE's MENA and Southeast Asia operations. Prior to Sanne, I was a qualified lawyer advising for more than 12 years on funds formation in Paris, Luxembourg and Dubai.

SANNE is a global specialist provider of outsourced alternative fund and corporate administration services. SANNE is listed on the London Stock Exchange. It engages with more than 700 people globally and has operations in the Americas, Europe, Africa and Asia-Pacific.

SANNE has been operating in Asia since 2010 through its offices in Hong Kong, Shanghai and Singapore. Across our Asian offices, we specialize in cross-border fund administration and reporting services, and we assist our clients on their multiple jurisdictional requirements. I spend a great deal of time in my role working with clients operating across MENA and Asia.

70

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



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Eurex Exchange – the home to the euro yield curve.



Matthias Knab

2016 is now coming to an end, let's see what is new in Singapore and in Asia? Let's maybe start with looking at FinTech, which is an area that is getting a lot of attention globally. Many new firms are being formed, and quite a few get funded from the venture capital side.

Rajesh Sundaresan: FinTech, as you rightly pointed out, is becoming very important in Singapore. There is a FinTech Festival next week in Singapore, and one in Hong Kong this week. We have seen **hundreds of startups** in almost every area of financial services.

As a former investment analyst and fund manager focused on financial sector, I have tracked the financial sector around the globe for many years now and FinTech is particularly close to my heart.

John Reed, a former CEO of Citibank in the '80s, in a moment of epiphany made a statement that "banking is just bits and bytes". Many bank CEOs are yet to wake up to that insight fully. When a customer deposits his money into the bank it gets converted into data bytes and from thereon many of the activities of a bank involve securely storing, analyzing, modifying and deploying that 'data byte' into other banking products whilst managing risks prudently. The success of a bank substantially relies on its ability to manage and process data. Since a significant portion of the banking business lends itself to digitization, it is no surprise that there are thousands of FinTech companies attempting to improve the efficiency and effectiveness of various elements in the chain, whilst some are attempting to completely reinvent whole business segments and the whole architecture from scratch.

We could go on about FinTech for a while, but the other thing I do want to point out is from a Singapore perspective what we hear is that the regulations for launching fund companies in Singapore, the **Variable Capital Companies**, is likely to come out in the first quarter of 2017. I believe that is something which has not been spoken much, but it could be potentially very interesting, because Singapore may well then start challenging places like Cayman or Guernsey or Mauritius as a global destination for funds. If managers can set up a fund in Singapore, with impeccable reputation for its regulation and rule of law, then what is the need to go to any other jurisdiction for business originating or operating in this region? So this is a development which could become an interesting topic from next year once Singapore passes this Variable Capital Companies Law.



Valérie Mantot: Although SANNE is a new comer in the Singapore market, we have been assisting for more than a decade international clients when they were using Singapore as an investment and structuring hub for their south East Asian activities. Our clients consider Singapore as a solid and safe financial center to establish their asset management and/or wealth management operations both from a structuring perspective and from an investment perspective.

The legal/regulatory changes, which have been announced in Singapore for 2017, are contributing in making Singapore is even more attractive for our clients our clients. One of this key development will be the open-ended investment company with variable capital. Having said that, and since Singapore is trying to compete with Luxembourg and Ireland and is trying differentiating itself from the offshore centers, such as the Cayman, I believe that more initiatives will be required in the short term to keep the attractiveness of Singapore. One of them could be the listing of startup funds. In jurisdiction such as Ireland or Luxembourg startup managers running small funds can use the listing of their funds on the alternative markets to raise money from institutional investors. This is not a listing for trading purpose; it is more a listing for convenience purpose. It allows managers to "tick the box" and provides certain institutional investors with the level of comfort required when considering investing in a new and small startup fund. It seems that there are currently various discussions with relevant professionals of the Singapore funds industry to assess the feasibility and added value of implementing a similar procedure in Singapore.



In addition to legal/regulatory developments, we also anticipate the practices and requirements of the Singapore regulatory and administrative authorities to become more and more stringent on areas such as KYC, substance requirements, use of tax treaties, etc. This is a resultant of the global changes impacting the funds industry and leading to more transparency, exchange of information, corporate governance. The fact that the Singapore authorities are taking it very seriously again gives more comfort to both investors and managers and helps in increasing the sustainability and credibility of Singapore as asset management and wealth management centre for Asia.

Noor Quek: I am Singaporean and while that does not mean that I have more insight in what I have say on Singapore, I nevertheless believe that Singapore has reached a crossroads. It used to be part of a twinning comparison with Hong Kong but now there's a distinction, with Hong Kong being looked at its better access into Greater China, while Singapore playing a strategic role vis-a-vis ASEAN, though still being a strategic conduit between the East and the West.

When I talk about Singapore having reached a crossroads, it's because, as Valérie also said, we have reached the next level of what is already a fairly high level of growth and development.

However, growing fairly rapidly has also resulted in gaps, for example, in the local work force in terms of having enough of the right people to serve our changed circumstances and growing needs.

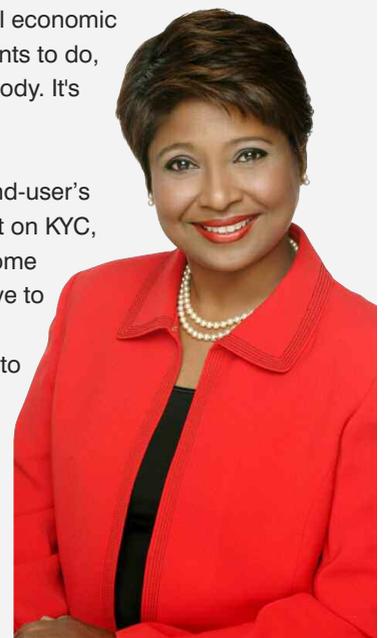
Within the financial services sector, regulations have become stricter in Singapore as in everywhere else. The challenge is going to be for businesses to be able to adopt and adapt immediately, but because of complexities with no immediate solutions or answers to some situations, will could lead to a tipping point where it could start to restrict businesses, if situations are not well handled.

Coming at a time when the world is facing much uncertainty, especially economic uncertainty, this would definitely add to the current potential adverse impact on the industry and on economies.

I would agree that Singapore is ideally placed, but going forward, given the global and regional economic and political circumstances, Singapore has to be very much more selective about what she wants to do, how she wants to do it, when she wants to do it and where. We cannot be everything to everybody. It's too costly.

Coming back to the financial services industry, and in particular to FinTech matters, from the end-user's point of view, this is also about the ability to translate figures into pictures. And a brief comment on KYC, while at the end of the day it's of course very important to know who you are dealing with, in some sectors like in private banking, some clients in ASEAN are still not used to the fact that they have to disclose much more than they used to. And this is where it's going to be a challenge for the organizations to make sure that there is enough mentoring and training of their staff to be able to handle both the hard and such soft issues.

Singapore cannot afford to have major disasters in terms of reputational risks. We are a small country, but if we do these things well I think we have a very big place in the sun over the next three to five years.



Mike Coleman: For me and probably for any asset manager, navigating through the changing regulatory environment has been an interesting journey. As we know, until 2011 or so, Singapore had quite a laissez-faire environment vis-à-vis hedge funds, and then post-financial crisis they brought in the current regime, which is being gradually ratcheted up to be comparable with being regulated in London or New York.

And as Noor just said, that comes with cost, it comes with gaps in capability within the local market. I maybe a bit less optimistic about Singapore's place, because **the cost advantage is largely gone** due to the increased overall cost of operating. When you look and things like rents, salaries, etc., Singapore has become expensive, especially in combination with a strong Sing dollar. When it comes to regulations, it's still cheaper than to comply with the FCA, but not a lot, and the ratchet is under way. Singapore is going to be a completely comparable regime with the UK FCA or the USA.

Singapore I think is very aware of the charge of regulatory arbitrage and being seen as a soft option. So Singapore is clearly on a mission to demonstrate that it is not an easy touch, and you see it from several angles. For example, this year the MAS has focused a lot on cybersecurity, outsourcing and a long list of things you have to do that weren't there five years ago.

When you look at the tax system, following the Base Erosion and Profit Shifting (BEPS) initiative, the IRAS is engaging with companies with multinational operations, including ourselves and our associated physical commodity trading company, so also here, it's quite clear that Singapore has joined the party. Certainly, *Singapore is not looking to be a more lightly regulated, less rigorous place than London or wherever.*



This does pose some challenges now for Singapore. From 2004 to 2010, I could quite hand on heart say Singapore is the best place in the world to be a startup hedge fund manager. Your regulatory capital requirements are quite low, the regulatory compliance burden is manageable, and office space is good quality and easily affordable, and you can get high quality people in support and at 50% or 40% of what they cost you in London. *None of those things pertain today.*

Plus, the UK now has lowered corporate tax rate to 20%, and it might be going to 15%. Singapore is 17%. While this may not go up, the personal tax is rising. Personal taxes are going up next year from 20 to 22% at the top end, the first increase in many years.

So the traditional Singapore package of First World operating and living environment at 40% of London costs with a chance to keep a much bigger part of the top-line after tax, that's not really the case anymore.

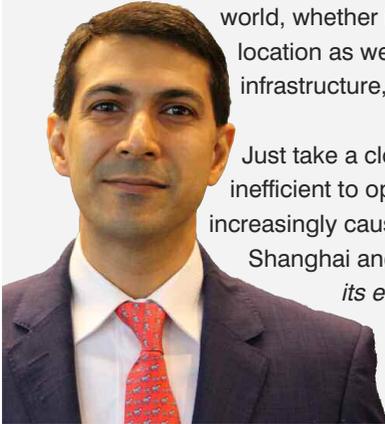
Valérie Mantot: I think that we all agree on the fact that Singapore is rapidly growing and changing, and as Noor said, it cannot be the ideal platform or solution for all.

When Singapore was still building its asset and wealth management industry, it was very attractive for smaller and less sophisticated players. It was, from a cost and regulatory perspective, the perfect Asian hub for startups. Today, all the countries – including Singapore – are subject to the same regulatory and economic pressure, which means that cost of doing business increase and regulatory requirements are high. As a consequence of that, we will witness a migration of smaller players, which were initially using emerging financial centers, to “new” emerging financial centers. These smaller players may obviously not find anymore, in the current environment, the benefit of using Singapore for the operations. However, bigger institutional players will definitely continue considering Singapore as the only and best option in South East Asia as there is today no other alternative in South east Asia. Now the question is: *Where will the smaller players migrate to?*



Gaurav Bansal: I think that Singapore has provided the right balance between cost and quality. I would agree with Valérie that the things we discussed are a part of the natural evolution towards Singapore becoming a major global financial center.

From a strategic perspective it is clear that the bulk of the global growth will continue to happen in this part of this world, whether it's from China or Southeast Asia, including India. There is really no other international location as well suited to take on the growth as Singapore with its robust legal infrastructure, physical infrastructure, and availability of human capital.



Just take a closer look at the other potential international centers. Starting with India, it is very difficult and inefficient to operate from Mumbai. Hong Kong probably is the only other potent city; however it is increasingly causing concerns to investors due to its political developments. The other factor is that until now, Shanghai and Hong Kong were favored because China was a lot more difficult to access. *As China opens its economy, this benefit is waning.* Then there is Australia, but it is also very hard to see Sydney becoming or converting itself into a major global financial center for the entire region.

Matthias Knab

So from your own perspective, you have launched your fund here on a platform, can you tell us more about your personal experience? For example, how is the asset raising going from here?

Gaurav Bansal

While Singapore has good overall infrastructure, it is still maturing as a place to raise funds for management. Fund raising can be a lot easier in other locations such as Hong Kong than Singapore.

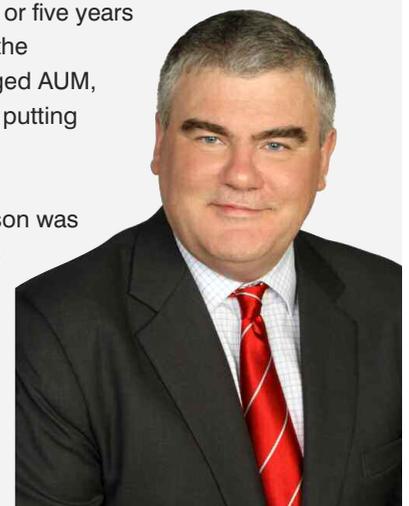
In terms of the ease of doing business, my experience has been that Singapore is far superior. In terms of the regulatory environment, I think Singapore is moving in the right direction.

Mike Coleman: I would agree that over the 12 or 13 years that I have been operating in the hedge fund business in Singapore, it's still the best place to run a company from running a business' point of view. It's still the best cost-value relationship, but what I am saying is that *this cost-value relationship is deteriorating vis-à-vis the UK.* And, don't forget, in London you have access to a much wider investor base.

But I also want to look at the bigger trend and the momentum. Had we been sitting here four or five years ago, we would have been discussing how Singapore seems to be picking up momentum in the competition with Hong Kong and narrowing the gap in AUM; we had rising Singapore managed AUM, more managers were moving down from Hong Kong to Singapore, and more investors were putting Singapore on their travel schedule than ever before.

My sense is that's been reversed in the last couple of years for several reasons. The first reason was Singapore did make a very aggressive pitch firstly on that it was cheaper and easier and less regulatory onerous to run a fund management business in Singapore. As we have said, the relative direction of that travel has changed.

Secondly, the **quality of life issue was always Singapore's trump card** relative to Hong Kong. While Hong Kong was choking in China's smog, down in Singapore we were all basking in our clean and green environment. But then along comes El Nino and we realize



that it has only been by an act of God that we have not had the smoke and the haze from Indonesia, because it has been there every year, just that the wind had been blowing it the other way.

So while things like legislation, rules and regulations and so on are still an advantage for Singapore, the haze has become a fact of life and it's probably not going away anytime soon. Hopefully it will be ameliorated and you will get some proper governance and discipline on the ground in Indonesia, but that's an open issue.

And then returns-wise in equities it was all about China while ASEAN, the Thai, Malaysian and Indonesian stock market, were all not at the races. While I haven't seen the figures recently, I would imagine Hong Kong has reopened its gap over Singapore in terms of AUM and ease of raising money.

Over the life time of our own fund, 80% of our capital has been from UK and Europe. I would agree that raising serious capital in Asia relative to America and Europe remains a big challenge, and raising serious capital in Singapore relative to Hong Kong remains a challenge as well.

Peter Fricke: That's interesting. I recently read that Singapore-based hedge funds have outperformed their HK-based peers for the first time in years, due to the fact that Singapore features more macro and CTA strategies as opposed to equity focused HK.



From a regulatory perspective, we do see that Singapore has adopted a very smart way to deal with global regulatory changes. In light of regulatory frameworks such as Dodd-Frank and EMIR, Singapore has taken a more neutral approach to figure out which regulations make sense and what is their potential impact on the affected companies. Thus we are in general very confident in the regulatory framework Singapore is providing and also see further opportunities for our global trading and clearing participants here.

Rajesh Sundaresan: I agree that there are many challenges the fund management industry is facing on cost and the capital raising side, but one also needs to recognize that this is not just unique to Singapore but is partly because of secular headwinds affecting the sector globally. When interest rates are zero, intermediaries can't charge two and twenty percent fees as they used to when rates and returns on asset classes were much higher. Therefore, your top line is definitely under pressure. The asset management business itself is under pressure and becoming more difficult everywhere, not only in Singapore.

The second factor, as Noor and Valérie rightly pointed out, Singapore is choosing its battles. For example, while the fund industry is facing challenging times from the perspective of FinTech, Singapore is a great place to be in. It's probably **one of the best places to start a FinTech globally** because of the regulatory environment, favorable Government policies and the incentives and infrastructure support you get here. The amount of incentives you get here to ease your start-up costs and the support you get from a pro-active MAS, is fantastic.

The MAS has a dedicated FinTech unit which goes out of its way to woo the regional FinTech companies to start up here. They have been very cooperative in terms of trying to relax regulations through the sandbox regime, without compromising on the integrity of overall regulations. They have also been proactive in promoting Singapore based FinTech firms. For example, during the Formula One race, the regulator arranged for a roundtable of around 25 CEOs of global banks and presented the top FinTech ideas from Singapore.



So I think Singapore is choosing its battles and I think it has probably taken a call, whether consciously or unconsciously, that FinTech is definitely a focus area for future growth. Singapore is definitely taking a lead in FinTech, but in fund management, yes, there are clearly secular headwinds which affect the industry and Singapore does have its own challenges of cost, scale and ability to access capital.



Valérie Mantot: Just looking at financial centers worldwide, we have to make a distinction between the financial hubs such as Singapore, Luxembourg, Ireland, Jersey from where you structure your investments, and the wealth centers, such as Hong Kong, New York, London, Dubai, where the wealth and the investors are. The concentration of wealth in the wealth centers is explained partly by the demographics, the natural resources, the industries etc. In my opinion, and based on that, the ambition of Singapore to become a leading wealth center, from where you could raise money, is a bit premature.

Matthias Knab

Possibly that changes as private wealth and private banking continues to develop here in Singapore, and more such products are actually created and managed from here.

Noor Quek: Sometimes when we talk about Singapore we forget also the political dynamics of the region. ASEAN is changing very fast. Even within the financial services sector the challenge is that each of the ASEAN countries want to take back part of the business that left them. That's one of the ways they believe they can develop the economy.

Of course there are issues even with Indonesia and the amnesty, and the answer is not going to be there tomorrow. It will take a while because it needs investor education as well, plus the direction these economies are going to move politically, and that's very serious.

Apart from those ongoing changes in our economy, also our people profile, our investor profile is changing. The **millennials** are coming forth and I can tell you from my family office business that children are thinking quite differently from the patriarchs. They understand FinTech just like that – understanding the subject and how to use it which daddy didn't know about about. And therefore they want to understand and are questioning the banks on their strategies and solutions. Having been educated overseas and having some family wealth behind them, they feel they have the whole world in their hands. They want to be involved in investment decisions, will ask the right questions and use FinTech in their assessments. The bankers/advisors **MUST** be fully in line with this. Is done well, it has big multiplier effects on the growth of businesses.

One other factor I have noticed very distinctively is people's view of China and the impact of the China factor in the last three, four, five years. I mean, look, China was having double digit growth, so it has gone down to single digit levels. By Europe's standards that's considered like "wow" still.

If you understand China, it's not just about Shanghai, it's not just about Beijing, it's not just about any of the bigger cities. China is huge, so to say for example real estate prices are coming down is, on a macro basis, not necessarily correct. Yes, China is going through indigestion but the levels it has reached and the extent it has grown is most commendable too. China will now have to sort its current situation out and will need time and have to make some tough decisions, but the impact of what has happened in China or is happening in China has an impact everywhere else.



Europe has frankly stopped growing for a while, and what's going to happen in the States is also very interesting.

At the end of the day, I think the stand Singapore is taking is both responsible and correct. I personally am happy we are not rushing forth with the big business development plan to say we can do this, that and the other and that we can achieve results now. That's not the Singapore style. We may be slow, but we have to be very sure, because it only needs one major mistake for us to be negatively impacted, because we don't have natural resources; we are only dependent on skills and our success thus far.

The reality from what I see is that it's likely another three years before we can see some clarity in the direction the industry will take; first, where the world is going; and secondly, where ASEAN is heading and Singapore will try and fit it into that.

I still stress, the role Hong Kong is playing and will play is still important especially to Greater China, I am actually not that negative about its role in the next three to five years, maybe after that when Shanghai and other cities are built up, it's going to be different, but it will be complementary rather than competing roles, I believe. Hong Kong is unique.

Peter Fricke

Speaking of ASEAN, do you think Singapore has taken an active leadership role here? And from a fund manager's perspective, what are current investment opportunities in ASEAN?



Gaurav Bansal: I think ASEAN provides several interesting opportunities, especially in the current low growth, high volatility environment. I think that the biggest opportunity that this part of the world provides is really diversification.

I manage a global macro ultra-diversified fund, so diversification is key criteria; however it has become very difficult to find assets which are not highly correlated with each other as markets are increasingly moving in lock-step. ASEAN still provides some measure of diversification to a macro fund. Apart from diversification, ASEAN also offers more growth.

Matthias Knab

Where in particular do you see opportunities?

Gaurav Bansal: We mostly see opportunities from a growth perspective in economies like India, Philippines, Indonesia, Thailand, and Vietnam. We see opportunities for these economies continuing to grow as they also have the political will to reform their economies for the future.

Over the last three to five year range, the political climate in this part of the world has been improving. Take India as an example. India had a so-called populist government and then by 2014 the country went into a direction where the population realized that this may not be the right direction and elected a reformist government. *I think that some developed economies such as US, UK, and Europe are actually headed in the opposite direction, making this part of the world more attractive from a longer term perspective for higher returns on investments.*



Mike Coleman: Regarding the **commodity markets**, the interesting thing here is that from a broader investor's point of view they are not correlated with the interest rate cycle particularly, and the bond and equity markets. So commodity markets are on the demand side primarily about GDP and industrial production growth for most commodities, and on the supply side, certainly for the agricultural and soft commodities, it's a lot to do with weather.

So broadly speaking, you can divide commodities into agricultural and soft commodities, which are really more affected by the supply side and Industrial commodities, including petroleum, that are much more demand focused. Because of the weather impact and relatively short crop cycles, the supply of sugar or coffee, wheat or corn can vary as much as 20% or 25% year on year, whereas demand for food stuff is principally about population growth, how many mouths need feeding, and an element of disposable income.

People's diets change as they get richer, they consume more calories, but it's not a linear extension. While in the developed world we generally eat more calories than are good for us, we can't eat double the calories we are currently consuming. So, for every population and economy, calorie consumption grows quickly with GDP and then flattens out, and then probably begins to decline again as we all get rich and health conscious.

But, agricultural or soft commodity markets are really about the weather. And from that side of view we are living through a very interesting period, because after broadly speaking, a benign global climate environment really from the mid-1970s through until the mid-2000s, over the last ten years we have moved into a **much more volatile weather environment**.

We have had La Niña - El Niño flips several times in the last six years. Currently we have just flipped from an El Niño to a La Niña. We are experiencing a much higher incidence again of both weather disruption and weather positive impacts, depending on where the rain is falling and where it isn't falling, and where it's getting hot or not getting so hot.

That has delivered a constant stream of interesting opportunities in the agricultural and soft commodities. Currently the sugar and coffee markets are suffering from the impacts of last year's drought, and so you have very strong bull markets going on in both and we think coffee especially has some way to run.

The grain markets in contrast have had a couple of years of very beneficial weather patterns in the US Corn Belt and the main growing areas in Brazil and Argentina, and so you have massive global stocks of corns, soya beans, wheat. But those markets are already pricing that, and things can change quite quickly as we move into the South American growing season for next year. In sum, the agricultural and soft commodity markets are always presenting a range of weather-induced volatility that drives price action.

On the industrial demand focused commodities things tend to be much more structural around the industrial consumption cycle. Broadly speaking, we had a structural bull demand market for industrial raw materials around the industrialization and build out of China really from 2002 until about the middle of 2012, with an interruption for the global financial crisis.

Mid-2012 until January 2016, we have had a very structural bear market, which has been all about the slowing of the Chinese growth engine, intersecting with the increase in long lead time production growth. Things like opening a new copper mine or to drilling a new oil well can take several years to bring into production. I will talk about US shale in a moment; a rubber plantation takes seven years, for instance.



And in 2012 we saw the interaction of all this investment into iron ore mines, copper mines, rubber plantations hitting a slowing China demand curve. When the world flips from structural deficits into structural oversupply or vice-versa, the long lead times around increasing production means that you have a **dramatic change in the price regime**. When the flip is to deficit and you can't change supply very quickly, then the price has to go to a level to destroy demand or to substitute demand, and that's what we saw happen in 2007, 2008, and again in 2010 and 2011.

When you flip to oversupply you have classic leverage impact and you then collapse to the

marginal cost of production of the existing supply base. So if we take crude oil as the example that people know best, the market was pricing a \$100 to a \$110 a barrel because that was the price needed to dampen down global consumption, to encourage production in difficult high cost projects such as the pre-salt deep water fields off Brazil and encouraging developments in drilling and recovery techniques most dramatically around fracking and US shale oil. The speed with which the USA reversed 25 years of onshore production decline was astounding.

Shale production has a different dynamic to traditional oil production. You can bring it into production much more quickly, you can close it down more quickly. It adds a lot more variability both ways to the supply of petroleum. Oil at \$100-\$110 is a price where the world needs to ration petroleum, but now in a world that has got too much petroleum the question is how much of the production do you need to shut off, and what's the marginal cost of shutting that off? We found out that somewhere between \$30 and \$40 a barrel that causes enough damage to the margins at the US shale industry that you begin to reduce supply growth. That's why the oil price dropped to \$30 or \$40 a barrel.

So broadly speaking, looking forward it's difficult to get structurally bullish on industrial raw materials. *You can't get structurally bullish on those commodities until you can start seeing global GDP growth at 5% and industrial production growth at 5% to 6%.* Without China, who is going to give you that type of demand growth? Potentially India, maybe, but not yet, not this year, and not next year.

Therefore, in the industrial demand-focused commodities, I think we are in the process of defining a bottom. I think we found the bottom in the China growth or deflation scare at the beginning of this year. Prices went really deep into the cost curve. The most visible example of the pain was in the US shale industry where they couldn't refinance the debts and so on. Or let's look at rubber where the price got down to \$1,200 a ton from at one point almost \$6,000/mt in early 2011. At \$1,200 a tonne, nobody in Malaysia or Thailand can make a decent living tapping rubber. Only Indonesian small holders can make a living tapping rubber, and so production at the higher end of the cost curve is heavily impacted.

So I think we can say the bottom is in, absent a China collapse, should the Chinese economy blow up on debt concerns. Again, it seems like the Chinese government by piling debt on debt, and by reversing course, has done enough to stabilize the Chinese economy, but that's coming at the cost potentially of something much more horrible. One day that model must fail. They can't manage that well for that long when in fact those imbalances are getting bigger, not smaller.

But for the time being, enough is being done to sort of put that floor in. So I think for things like petroleum we are defining the bottom range. There is an analogy non-commodity people may find in the Japanese equity markets through the 1990s and 2000s. You can still get big percentage rallies but they can't extend into a medium-term trend. So in the case of crude oil, yes, if OPEC manages to get a little bit of action together, then maybe you lift the floor from \$30 to \$50, but it's very difficult to take it much above \$70 because all that US shale comes chipping back on again as the price moves up through the \$50s, and so probably you're in this sine wave where seasonality or money flow and sentiment shifts and the market can go on a bit of a rally, but it can't hold and it will come back.

You see the same thing in iron ore that has become all excited because China is turning on the infrastructure taps again. So it got up to \$60 a tonne. At \$60 a tonne, high cost producers like Sierra Leone are coming back, and everybody in Australia turns on the taps as well. A few months from now we'll probably see iron ore inventories and steel inventories chunking up again. This, in my view, is going to be the story in the industrial demand focus commodities—a sideways rolling sines curve until we get a global economy that starts growing strongly again.

The bad news on that is I started my career in 1982 which happened to be when commodity markets had just sold off from their early 1980 highs, and it took 20 years before we got two consecutive years of GDP growth above 5% strung together again.

Valérie Mantot

Would the same apply to precious metals?

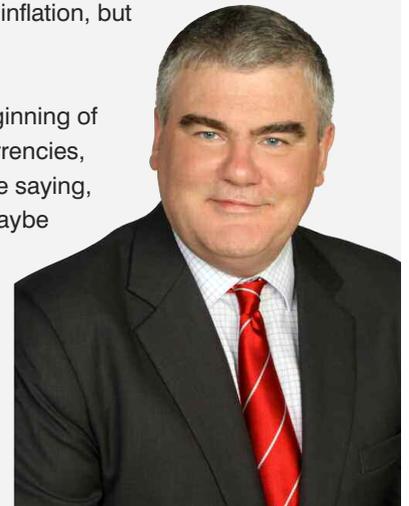
Mike Coleman: Precious metals are very different. I deliberately don't talk about gold because we don't trade precious metals. My personal view is that **gold is a monetary asset**, it's not a commodity, and so gold is telling you more about real interest rates and, if you like, the integrity of the global financial system.

We tend to emphasize fundamentals over macro and while yes, an inflation environment might be good for commodities, but demand trumps that. So yes, you might have stagflation developing but the stag part of stagflation will make it very difficult for commodity prices in real terms to do very much. *therefore we think that the utility of most commodities as an inflation hedge is quite questionable. Commodities are a good hedge for commodity-induced inflation such as the oil shocks of the 1970s.*

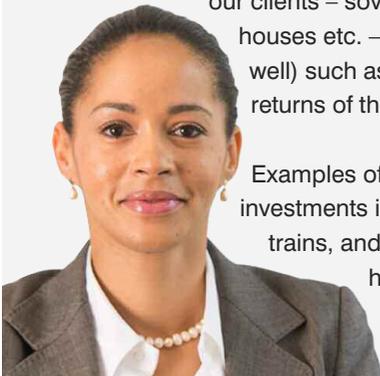
Historically, commodities have actually not been a particularly good hedge for other types of inflation, but gold probably is. In the stagflation environment, maybe gold is quite all right.

From a more macro level, you had the massive deflation and China's growth scare at the beginning of this year. Since then you've had a big rally in emerging market equities, emerging market currencies, commodities, emerging market debt – in essence, it's all in the same trade. Some people are saying, "Okay, this is the end of the 30-year dollar bond bull market. We're moving into inflation or maybe stagflation and therefore let's load up on gold and buy real assets." I'd caveat that when it comes to commodities because in stagnation, the demand is not going to be there.

But maybe just as people have piled into UK and Singapore property as a quasi currency and store of value, maybe yes, maybe people will be willing to invest and store inventories of copper and rubber, and crude oil as an inflation hedge.



Valérie Mantot: Because of the uncertainties and volatility on the equity, bond, and commodities market, we see a number of our clients – sovereign wealth funds, real estate developers, institutionalized family offices, private equity houses etc. – investing in tangible assets and non-sophisticated assets (i.e. assets that they understand well) such as real estate or private equity. We also see them having more realistic expectations on the returns of their investments and taking a long term view approach.



Examples of investments would be commercial real estate in Japan, in Australia, and China. Infrastructure investments in countries like Indonesia, Myanmar or Cambodia, and targeting ports, road transportation, trains, and airports. Other examples would be private equity and venture capital investments in healthcare or in technologies related to the healthcare sector, education and vocational training schools, food and agro businesses.

Noor Quek

I just want to very quickly say that we cannot underestimate the impact of rising consumerism, in particular the Asian region, as disposable income increases.

Gaurav Bansal: Going back to commodities, I agree that China will have a hard time in pushing industrial commodities and metal further ahead. But there are a number of developed economies where there has been no **investment in infrastructure** for a very long time such as Europe, Canada, and US. Furthermore, there is increasing recognition that fiscal stimulus around the world needs to step in to take over the mantle of growth.

With regards to energy prices, there appears to be consensus that as oil prices start to go up, US shale is going to pick up again. However, people forget that US shale has been based on funds raised from the market in an ultra-low interest rate environment. Whether US shale will continue having access to capital if interest rates are going to normalize is anybody's guess. So I do not see it as a straight forward case that US shale is going to pick up as soon as energy prices pick up.

In any event, from the perspective of a longer term return from commodities, the price in itself is irrelevant because **80% of the returns from commodities actually come from their roll in the futures market.**



Peter Fricke: Besides commodities, I would like to share some of the recent developments in the equity and fixed income derivatives markets we have observed. Since the decision by the UK to exit the European Union we witnessed more volatility in the underlying rates markets and volumes in our benchmark futures continue to shift to the peripherals (Italy, Spain). In particular, our Euro-OAT & BTP-Futures continued their strong growth and traded more than 6 million contracts each during Q3 2016.

As for the equity and index derivatives, we see a trend that global investors are looking into more broad-based indices, such as the STOXX 600, which also includes countries like Britain and Switzerland across a variety of sectors, to diversify their portfolio. Likewise, we have seen a strong turnover of 3.85 million contracts in the MSCI segment since beginning of 2016 due to ongoing investors' interest in passive strategies and an increased need for cost-effective and efficient hedging tools in the form of futures and options. Eurex's MSCI products have reached an open interest of 1 million contracts in the month of September this year and we believe that this trend will continue as they are considered a reasonable alternative to margined swaps.



In addition, we saw a surge of interest in volatility trading driven by a number of Euro-specific events this year. This led to an overall 26% increase in our VSTOXX derivatives trading volume. Investors use this contract to protect themselves from the downside risk of the European equity market as the VSTOXX index is negatively correlated with most European indices, like the EURO STOXX 50, but also the CAC40 and FTSE.

Noor Quek

When you look at all these movements we're seeing in various asset classes, how do you see this affecting currencies? I think the major currencies continue to be really volatile.

Peter Fricke

That is true. That is why we have started this year to list some of our benchmark products in different currencies. For instance, we have listed the EURO STOXX 50, a very liquid Euro-denominated product, in USD as well. This product separates the index performance from potential currency fluctuations. We will also look into listing more of such products in the future.

Rajesh Sundaresan: Our new robo-advisory product's focus is B2B. We are building out digital wealth advisory platforms for banks and other financial institutions in the region. Some of the institutions we are talking to are very large globally, and some of them may roll out our offering globally as well.

Robo-advisory is going to be a crowded space soon. There are dozens of robo-advisors which are likely to hit the market in 2017. While most institutions are unlikely to make money on their robo-advisory business, they nevertheless feel compelled to offer it as a basic hygiene factor, just like banks need to offer ATMs whether they make money off ATMs or not. Customers are demanding access to low cost and efficient advisory online and institutions need to cater to that demand.

As a part of our offering, we have created an open architecture strategy store at the back-end where a number of institutions are offering their strategies on a managed accounts basis. For clients of the banks or institutions that use our platform, such *access to strategies may result in a more cost effective solution than buying funds or even an ETF.* For example, one of the strategies we offer is a very popular and sophisticated one that has over \$15bn of AUM invested in it in various forms, with a number of institutional investors, paying fees from 1% to over 3% of AUM. Now, the same strategy can be accessed through our platform for less than 50 basis points as a managed accounts solution.

So forget about your upfront fee, forget about the cost of setting up a fund structure, forget about the cost of the management fee. Even retail customers can access the product at a very low cost. The underlying stocks would be directly held by the investors in their accounts with Pershing (BNY Mellon), the largest custodian in the world. So if you as an end investor open an account through one of the institutions we are working with, the account gets opened in your individual name directly with Pershing as a custodian, the fund manager trades on your behalf, and the underlying stocks are held by you directly. You can actually see whether you own Apple, Google, Colgate, whatever. I think it cuts through the layers of costs that funds or ETFs have. Importantly, it also avoids the risk of investing in opaque fund structures where investors face gating or liquidity risks similar to previous crisis periods in markets.

I'm sure there are others who are thinking of similar solutions. The point I am making here is that technology is definitely helping reduce intermediation costs and improve services offered even in fund management industry and we're just trying to embrace technology to offer investment management services in an efficient way.

What does it mean for traditional funds? Yes, it does challenge their business models. We debated earlier in the day about the challenges faced by the fund management industry in terms of high cost of operations, pressure on fees and difficulty in raising capital. The ongoing FinTech revolution is adding to those challenges. Very few doubt the value of good investment skills, but it is equally important to have the right business model and infrastructure to connect investors and investment managers in the most efficient manner. That's what we're trying to do through robo-advisory – it is not just about offering a low cost simple retail solution.



Peter Fricke: Also on our end we are always working on new product offerings in close alignment with our market participants. There are a few points that I would like to highlight here. The first point also relates back to Noor's earlier question about currencies. It started when Deutsche Boerse acquired 360T, an OTC FX trading platform, in October last year, and subsequently made them responsible for the group's global FX strategy. This includes an extension of trading hours for FX futures up to 23hrs on the Eurex system within Q1 2017, offering of new currency pairs like Australian Dollar, New Zealand Dollar, Japanese Yen and the introduction of rolling spot FX derivatives. By combining FX clearing services of Eurex Clearing with 360T's OTC trading platform, we provide investors with a **one-stop shop for their entire FX product**

needs.

The second point that I would like to highlight is that we have observed more and more *futurization of OTC products* in the past 12 or 18 months and I believe this trend will continue in the years to come. Due to regulatory requirements like the bilateral margin rules on non-cleared swaps it will be more costly for market participants to trade OTC. Thus we are trying to replicate these OTC products as close as possible on our exchange. In the beginning of December, we are launching total return futures on the EURO STOXX 50 index. With this product, investors will have a listed solution for implied repo trading and benefit from multilateral netting, cross margining and reduced counterparty risk via the CCP.

Third, in addition to the FX trading hours' extension, we are also working on increasing the trading hours for our benchmark products into the Asian time zone. A request which was particularly articulated by larger hedge fund clients and institutions in order to minimize the tracking error when global events impact their European exposure outside core trading hours.

Noor Quek Who is your target market for these new products?

Peter Fricke Our total return futures product is more catered to banks and larger financial institutions impacted by new financial market legislations. On the other hand, FX is really a generic product for traders and investors across the board, institutional buy side investors, retail investors as well as the sell side.

Valérie Mantot I wonder, the new products that you mentioned are structured and designed in Europe – are they popular here? How is the Asian community or your clients here taking them up?

Peter Fricke Our total return future is based on the EURO STOXX 50 index. Thus, we will definitely expect more demand from Europe. Nevertheless, we see a huge interest in our FX products in Asia, in particular Singapore. It is a highly sought after asset class as investors use it to hedge their multi asset portfolios.

Valérie Mantot What are your most popular products for Asian clients?

Peter Fricke: Apart from our flagship products such as the EURO STOXX 50 and DAX on the equity side, and Bund, Bobl, Schatz on the fixed income side, our cooperation products with Asian exchanges, i.e. Eurex KOSPI Options and Eurex TAIEX futures and options, are also heavily traded in Asia. With respect to our cooperation with Korea Exchange (KRX), we will actually introduce Eurex Mini KOSPI Futures on 28 November 2016 at Eurex, making both KOSPI 200 Options and Mini KOSPI 200 Futures available on the Eurex platform.

Mini products in general, like our Mini DAX future, are very popular among Asian investors as they represent a less capital intensive way to track the development of an index with lower margin requirements and smaller tick sizes. With this combination, more than 5.5 million Mini DAX contracts have been traded since its launch one year ago.



Gaurav Bansal: These are interesting points you mention with regard to the new products you are adding on Eurex. We use Eurex quite extensively, and largely because Eurex is offering a number alternative investment instruments. We have discussed already that today it is very difficult to say that there is going to be returns from equities or from bonds. After all of the quantitative easing from central banks, it appears to us that the risk premiums in both of these major asset classes of equities and bonds are really compressed.



So we have been researching in terms of new alternative investments. We are aligning our fund with the market realities and we see that we need to move further and further into alternative asset classes which are particularly interesting because of their lack of correlation with the rest of the market.

These alternative assets also happen to be pretty significant in terms of the returns that they provide. Just to mention European processing potatoes as an example, while there can still be some issues around liquidity, they offer above **50% per annum return**. So it's really good that exchanges like Eurex are taking the lead in adding products which are nonstandard because the standard products have become highly correlated with each other also currently have very compressed risk premiums.

Mike Coleman: I think Gaurav is making some interesting points here.

When we talk about asset classes, we are not sure that commodities are an asset class. They are a trading opportunity, and they are negative income producers. A commodity costs money to store therefore there is no expectation of a positive return on an a buy and hold strategy.

At a broader level it seems to me we are moving to a world where everybody has to become a trader. That's great for us, because we are traders and have always been. As commodity traders, we have grown up in a world where you're trading a thing which has, as I mentioned, no expectation of real returns. If you look at the last 200 years of real commodity prices, there's actually a declining trend in real prices. As economies become more sophisticated, the intensity of commodity use per unit of GDP tends to fall, and over time, producers tend to get more efficient in producing. Therefore, the long-term trend is downward for real commodity prices. If commodities were an asset class, it's an asset class that tends to fall in real value.

*Often, the better returns are to be made by being short in the commodity because there is a much symmetrical outcome of falling to rising prices than you would expect from bonds or equities. So generally, with bonds and equities, over time you expect the price to rise and you are receiving an income in the form of coupons and dividends. And therefore, being an investor, this means that buy-and-hold works. **For commodities, buy-and-hold absolutely does not work** because of the negative cost of carry and as Gaurav indicated earlier, even in a bullish environment, if the time structure of the market stays in carry, you can still lose money.*

A classic example this year is WTI front month futures which have risen from US\$ 37/bbl at the beginning of the year to around US\$ 45.00/bbl today. This apparent gain of \$8.00/bbl has actually been entirely consumed and more by the cost of storage reflected in the negative roll cost. *The USO ETF that reflects a constant investment in front month futures has fallen 10%.* So, for commodities, you can't be buy-and-hold. Our proposition would be that the best thing to do is to give it to a good manager. The second best thing is to engage with a robo-advisor and maybe an optimized index solution provider.

But again, my broader observation is that because of zero interest rate policy, everything in the investment world as a whole is being turned into a trading paradigm. *The only way that you generate a return now is by trading*, and that can be by selling volatility or going long or short commodities or buying negative yield bonds for capital appreciation. But, this is also a very scary world, because by definition it's a zero-sum game. For every winner there's a loser on the trade, and empirically most people are not good at it.



Noor Quek

Albeit, the bottom end of it, given the direction of interest rates, how do you see the impact on various asset classes?

Mike Coleman: Well, again, in a way you would like to think, yes interest rates have reached their lows. I remember reading an article several years ago saying, “For 20 years, we in the West have criticized the Japanese for doing a terrible job. In fact, we should be congratulating them for the fantastic job they’ve done and that nominal GDP has been positive every year.” In the face of massively negative demographics, the Japanese have really done a good job in a massive deflationary environment. We will be lucky if we do half as good the job, and at the moment it looks like we’re not.

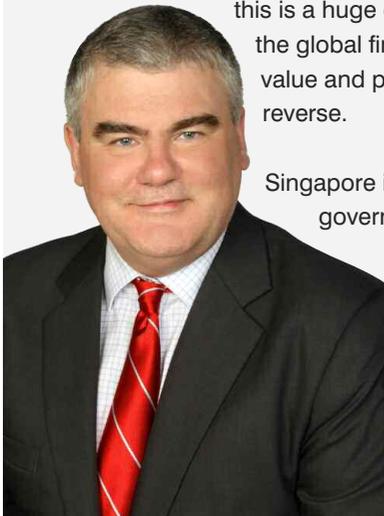
Of course, there are also lots of reasons why we are not Japan, but if you look at this belief in the **optimism of infrastructure** that suddenly if we build loads of bridges in America or in Europe, well, Japan has been doing that, the country is concreted over.

Back to my earlier comment, I think it’s a very scary world, and in a way I am happy that we are traders and don’t make our money by making investment decisions. We are focused on the next three or six months, but occasionally in my reflective moments, I ponder over the big picture stuff that’s going on, for example in demographics and the aging of the developed world population.

Clearly, that is a major secular theme that’s playing out. What is the real normalized interest rate? In many ways, it’s quite scary how we are replaying the 1930s. So, for the first time this year, **global trade will fall in nominal value**, so the actual numbers of containers shipped and ton-mile shipped possibly since the Great Depression.

You’re also seeing this in politics. *I actually think “populism” is too polite a word.* There are “strong” men promising the return to some mythical past, blood and soil nationalism, denigrating the institutions of democracy, targeting minorities. I mean, anybody with any historic appreciation of what happened in Europe from the end of the First World War to the beginning of the Second World War can see the parallels. Yes there aren’t armed militias battling on the streets yet, but maybe in the modern world, you don’t need that.

From a market’s point of view, *I think we have reached the high point of globalization and open markets.* I believe this is a huge challenge for all of us in our business. The pendulum swing from let’s say the mid ’70s until the global financial crisis, which was all about freeing capital and free movement, reducing, if you like, the value and power of labor. That swing seems to have reached its political limits and is beginning to reverse.



Singapore is a canary in the coal-mine, and you saw it in the 2011 general election in Singapore when the government were forced to focus on the concerns about the negative costs of, in Singapore’s case, too rapid growth in terms of higher immigration levels and strain on public services and questions of equity and growing inequality. But the broader theme is really how the wealth is being shared. And so that theme is out and running around the world, and therefore, I would say that the expectation is that we will see **more trade barriers**. Maybe you will start to see exchange controls coming back and more control on the flow of people. England voted for Brexit, in my opinion, largely on the immigration issue. So while intellectually it’s a very interesting time to be engaged in markets, it’s also really very worrying.

Noor Quek

I would rephrase that in these more challenging times solutions may not be readily available. One may offer a solution but before you can implement it, a circumstance comes around which changes the lay of the land. Tech and automation have much to be responsible for in the new age communication system.

Rajesh Sundaresan: I don't want us to end on a depressing note, so I will lay out the other perspective as well. Not that I'm an irrational optimist, but just want to present the other side of the story as well. Let me first talk a bit about the risk factors, specifically addressing the question whether rates can go up significantly from here.

The way I look at the world now, it looks like an inverted pyramid. The largest economies in the world which are US, Europe, Japan and China, are all leveraged 200% to 300%, and they are already struggling to pay debt when the rates are close to zero. I am not sure many economies can actually take the pain of higher rates. I think this is going to be very challenging, and an inverted pyramid is never a stable structure. So risk is definitely there and ability to absorb shocks appears limited.

Having said that, let me switch over to the optimistic side. Recently, I read a book called "Radical Abundance". I think that at least the summary is worth reading, you can google it. The author is a guy from Silicon Valley who apparently coined the term "Nanotechnology" for the first time and he makes a few valid points. Of course, if you are sitting in Silicon Valley, there is nothing but optimism out there. We are sitting unfortunately on the other side of the trade, but let's **look at the world from a Silicon Valley perspective.**

The cost of efficient energy continues to fall, and solar is becoming cheaper than conventional energy. So in a few years, your energy costs could fall to very low levels. Having cheap, abundant energy is a huge positive.

Second, looking at healthcare, look at what's going on in genomics in terms of CRISPR and other new technologies. Healthcare and medicine is becoming very efficient and could be available at a very low cost. So potentially healthcare costs could be go a lot lower too.

Education, with Khan Academy and things like Coursera or EdX, even top tier universities like Harvard and MIT offering their courses online for free or for a very low cost. So the cost of education is going down as well.

Sure, not all costs are falling. The cost of real estate in Singapore or such places are very high, but now you don't need to live in a prime area anymore nor need to operate your business from high cost areas. So you can bring considerable efficiencies to many business models. Your cost of computing and telecom are also falling substantially. All of us in this room are operating global business models without the cost structures associated with such models historically.

While there are geopolitical risks, high inflation, inequality, excess leverage, etc. on one end, there are also these **major structural forces** which I mentioned which clearly have very positive impacts on individuals, economies and societies longer term.

If you are an optimist, you could hope that the impact of positive forces will offset the obvious negatives. Let's hope that happens before any shocks hit the financial markets, as tolerance for pain appears to be low.

So I think there are strong positive developments reshaping the world and it is for us to be smart enough to find those opportunities as well.



Valérie Mantot: We spoke about aging, and yes there are countries going through these aging issues, but there are many more countries having a growing young population.

We also spoke a lot about various economic and financial crisis concentrated in developed countries, but there are still a number of emerging markets countries with a growth expected to be a double digits growth in the next five years. We, at SANNE, believe that **growth will be coming from these emerging territories across Asia and Africa.** In these countries, cost of education is decreasing, infrastructure is improving, access to capital is becoming easier and opportunities are huge. So while the large developed blocks are going through challenging times, there are still many more territories



out there where you can expect to have profitable businesses and good margins, so it is also up to us to shift our focus and resources. As an example, one of SANNE's last acquisition was a hedge funds administration leader based in South Africa.

Noor Quek: I agree with you, Valérie, we have to be realistic in recognizing what are the issues today. One issue I see is that leaders here need to firmly manage the expectations of their head office. They need to move from their current positions of short term solutions and think longer term.

In the financial services industry, for example, all the leaders are marking to market when they should really be looking at longer term relationship building, development, etc. So I think that at end of the day the winners are going to be those who;

- a) dare to recognize the risk in its truest sense;
- b) dare to look at solutions which may not be the conventional solution that we've had in the past.

We can't solve the current and future problems with an approach like, *"this is the problem and this is how it's normally solved."* Issues arise as we are attempting to resolve problems and we therefore have to be alert and flexible, adapting to changing needs and meeting regulatory requirements.

Change really is the only constant.

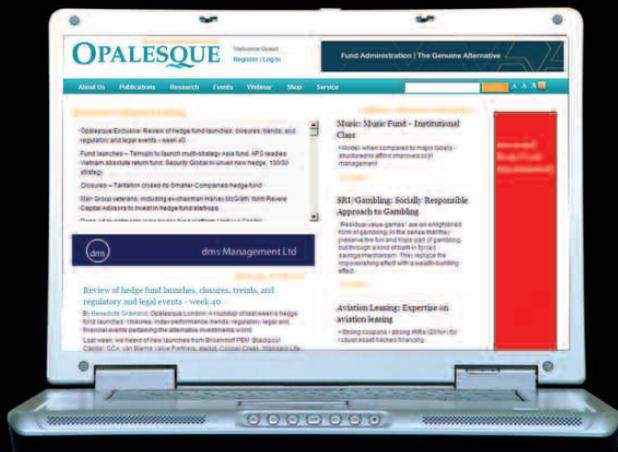


Rajesh Sundaresan: You are right, and just going a bit deeper, a part of the old thinking is that many of us are still looking at leaders for solutions. But **in the new age the solutions are getting generated on a completely bottom-up basis.** Countries like China are struggling because top-down solutions don't work anymore. If you look at companies that represent the "new China" versus the "old China", you notice that old China sectors which are top-down driven are struggling while the new economy companies are flourishing even in the face of macro challenges. Anticipating and adapting to rapid changes in the marketplace is critical for any company to survive and thrive.

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