OPALESQUE

Opalesque Round Table

AUSTRALIA

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Introduction

Dear Reader,

Welcome to our second edition of the Opalesque Roundtable Series, the **Opalesque Australia Roundtable**. In an Opalesque Roundtable, we unite some of the leading hedge fund managers (single and multi strategy managers) as well as representatives of the local investor base (institutions, fund of funds, advisers) to gain **unique insights into the specific idiosyncrasies and developments, the issues and advantages of each hedge fund center**.

As with our first Roundtable - the Opalesque New Zealand Roundtable - also here we focus on a hedge fund center which for most of us is not really "around the corner", again underlining the value of this new Opalesque publication. No matter if you are a hedge fund investor looking for new talent, a hedge fund interested in diversifying your investor base or a service provider looking for new clients, you will get to know some of the leading heads of each hedge fund center and find **invaluable information and intelligence** right on your desk, without any travel involved.

The Opalesque Australia Roundtable was **sponsored by Minter Ellison Lawyers** (www.minterellison.com.au) and took place in their Sydney office. On behalf of Opalesque and the Roundtable participants, we thank Minter Ellison Lawyers for their support. We also thank Hatfield Liptak Advisors for putting the group together.

The participants of the Opalesque Australia Roundtable are:

- Matthew Kaleel, Chief Investment Officer, H3 Global Advisors (www.h3global.com)
- Richard Keary, Director, Audant Investments (rkeary@audant.com.au)
- Michael Munns, Chief Investments Officer, Prodigal (www.prodigal.com.au)
- Andrew Alexander, Portfolio Manager, MQ Specialist Investment Management Ltd. (www.macquarie.com)
- Arthur Roumeliotis, Head of Absolute Return Research, Jana Investment Advisors (www.jana.com.au)
- Michael Brookes, Chief Investment Officer, St Helens Capital (www.shipl.com)
- John Corr, Managing Partner, Fortitude Capital (www.fortitudecapital.com)
- Philip King, Founder, Regal Funds Management (www.regalfm.com)
- Damien Hatfield, Daniel Liptak, Founders, Hatfield Liptak Advisors (www.hatfieldliptak.com)

Please enjoy "listening in" to the Opalesque Australia Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Cover Photo: Ayers Rock, Australia

Participant Profiles

Seated (left to right)

Nathan Cahill, Matt Kaleel, John Corr and Michael Brooks.

Standing (left to right)

Arthur Roumeliotis, Richard Keary, Damien Hatfield, Stuart Johnson (Minter Ellison, guest), Daniel Liptak, Richard Molden (guest), Rick Bernie (guest), Matthias Knab

Missing on group picture:

Michael Munns (Prodigal), Andrew Alexander (MQ Specialist Investment Management Ltd.), Philip King (Regal Funds Management)

Introduction

Matthew Kaleel
H3 Global Advisors

We run quantitative products: a currency, a commodity, and a Japan fund. Our performance last year was okay. Best performance was our currency fund which is up 39%. Our Japan fund was up 4% and our commodity fund was up 14%. Current assets are just under US$100 million. For this year, the commodities fund, obviously. It's up 10% in line with the indices.

Richard Keary
Audant Investments

I am currently involved with multi manager hedge fund investments at a family office. For the last 10 years, I was running the alternative investment business at BT, which was predominantly a fund of funds business and also strongly engaged in commodities. I actually seeded Matthew's commodity fund a few years ago...Apart from that I ran a fund - also for BT - which was probably the dominant seeder of local equity hedge fund talent as well, and looking at this Roundtable here, there are probably a couple of managers who were seeded by that fund.

Michael Munns
Prodigal

I founded a company called 'Prodigal'. We run an Asian multi-strategy fund. Our performance last year was about 25% - I am pretty happy with that. In the last eight weeks it has been a bit difficult, we were down 2% in January, but we think there are lots of opportunities in the marketplace. There has been bit of a 'shake-you-up', but that's only good for business going forward.

Andrew Alexander
MQ Specialist Investment Management Ltd.

I work for MQ Specialist Investment Management, which is a subsidiary of Macquarie Group. I am part of the MQ Asia Long Short Fund team. I have been involved in traditional fund management since 1985 and managing Asian hedge funds since 1995. The MQ Asia is a long short equities Pan-Asian hedge fund, including Japan. We currently run about $880 million and our performance since inception has been about a 20% return on 5% volatility.

Arthur Roumeliotis
Jana Investment Advisors

I am the Head of Absolute Return Research at Jana Investment Advisors. Jana is a large asset consulting group here in Australia; we are relatively well allocated to hedge funds though traditionally through fund of funds.

Michael Brookes
St Helens Capital

I am the Investment Manager for the Arran Fund. We run equity long short strategies in Australian shares. The business was established seven years ago and since then we have achieved an annualized return of over 15% with a volatility of 5%. We were flat in January - which was a difficult month for many other hedge funds. In August 2007, another difficult month, we were up by about 3.5% . We run just over $100 million in assets.

John Corr
Fortitude Capital

We run an Australian Equity Market Neutral Fund. Within that fund we apply a multi-strategy approach with a lot of focus on long gamma derivative positions and arbitrage style positions. The domestic fund is just only three years old, our annualized returns are of just over 12% at a standard deviation about 3% and a Sharpe Ratio of just short of two-and-a-half. The Fund was up 1.2% in January, in the 3 year life it has had three down months. So we feel we have multi-strategy approach within Australian equities allowed us to have relatively smooth returns. The Fund size is about A$165m.

Philip King
Regal Funds Management

Regal was set up about two or three years ago by myself and my brother, Andrew King. We currently have around $350 million under management. We run fundamental long short equities in two strategies: one is market neutral where we try to be beta-neutral at all times, and with the other strategy we have the discretion to take market risk. The market neutral strategy has been averaging around 30% since inception and our absolute return strategy has been averaging around 40%.

Matthias Knab **What is it like to run a hedge fund out of Australia? Does it have advantages? Does it have disadvantages? What advantages do you enjoy down here?**

Michael Munns From our point we found that the biggest negative is clearly marketing. You can't be close to your clients easily without a significant amount of travel. People want see both the investment professionals, and they want to see your physical location. However, from the investment perspective given the strategies we run, we are in the right time zone. We can get talented people here; both in our front office, financial control and operations.

So we don't really find it a disadvantage from an investment perspective. In some ways, as we are based in one Asian location, given we are an Asian fund, you tend to over-focus on that location, which is Australia on our case. However it is important we are based in the region. Besides, Australia is a nice place to live, which to some extend lis a positive point also for the investors, but clearly for marketing it is a disadvantage.

John Corr The time zone here is a real advantage. You get to see Asia alive, you get to see most of London or the opening of London at least and with modern telecommunications and IT you can watch a lot of the American trading.

True, the distance is a real disadvantage and sometimes you could think that certain parts of the world believe that this is a bit of backwater in a lot of ways. But when they come to visit us they are in fact quite surprised to see how we are regulated, and more precisely how strong the regulation is here.

Philip King There are even more advantages in our view. Firstly, I think the Australian market offers a number of diversification benefits to offshore investors. Australia is a huge part of the global resources market which is very significant, both from a risk reduction point of view and also a return enhancement.

Another advantage lies in the relative immaturity of the Australian hedge fund industry. There are still a number of good opportunities because some of the Australian market participants are less competitive than they would be if they were in Europe or North America, we see that particularly on the short side. In Australia, a lot of their best talent on the investment management side has gone to the long side boutiques and as a result there are not a lot of big local hedge funds.

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As a disadvantage you could say that the Australian market is of course a limited universe, which probably raises some questions over the capacity of hedge fund managers here. We seek to overcome that a little bit by investing up to half of our assets offshore on an opportunistic basis. And as the other managers have said - I spent seven years in London as a hedge fund manager - there are a lot of lifestyle benefits from living in Sydney.

Matthew Kaleel We are looking into setting up a marketing office in a location such as Singapore which only one stop from New York or London. I agree with everybody in terms of the technology being world class here, we've also have found getting good people - skilled people with the accounting or maths or finance degree - is not a problem. Another benefit of being here is the opportunity to profit from the large pools of capital which are slowly becoming more aware of hedge funds. It will be taking a while, but we are talking about a vast pool of resources. If you do the right things and jump through the hoops, this could be a long-term pool of capital, which hopefully, we'll all be able to access.

Matthias Knab **Is there anything else that you would like a fund of funds in London, a family office in Geneva, or a multi-strategy manager in New York to know about you and your industry here?**

Michael Munns Yes, one of the things we would like to outline is that on the due diligence side, there is an opportunity for them to outsource that. There are lots of people here that could perform these functions locally. We have seen a little bit of that developing. There is a lot of scope for an outsourced agent to take on this role, somebody who is independent of the local funds and also independent of the fund of funds.

John Corr I don't think a lot of new people just do not understand the high level of our regulations here in Australia. Often the investors and potential investors which come to visit us from overseas are surprised to find that most hedge funds are registered with ASIC and you have to go through that process every year. It's quite a long process and it's quite a heavy regulation. The hoops to get through in order to get licensed are very demanding, and that surprises a lot of people. Even the professionals which come here to do due diligence are surprised by the level of due diligence you have to get through just to be licensed with the securities' commission here.

Richard Keary John, why don't you give an example of how hard it is to get the levels of authorization under a license, you have to demonstrate skill, right?

John Corr You have to obviously have an experience in that area, be referenced by other professionals within other organizations or at certain levels within organizations. Your company has to be audited every year. You have to go through the police check and so forth. That is a good example, a lot of the work due diligence people come to do here is already done for them if you are licensed.

Michael Munns Often when people come to Australia we often get asked the question, do you have disaster recovery plan, do you have compliance plan, do you have good personal asset trading rules, do you have an auditor, do you have audited financials...what systems do you have etc. What they do not realize - all those issues, you have to have them in order to get a license and you have to have them pass your auditor. So there are a whole lot of things that they shouldn't take for granted as investors, but I think they can rest assured that what you need in Australia to operate as an hedge fund is another threshold than what you have in Singapore to operate as a hedge fund, for example.

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Michael Munns

Matthew Kaleel We are registered as a CTA in America for six years and as a CTA in Australia with the Futures Exchange. The regulatory regime is worlds apart. The U.S., being self regulatory, you never have to submit anything, we didn't get audited in six years, it took them seven years to make contact with us. Whereas, as everybody said, there is an annual audit with the ASIC here, there are ongoing requirements like liquidity requirements etc. It would be great if there was more consistency between the major jurisdictions and if there was an awareness that Australia has probably got the world's best standards. Compared to most other jurisdictions we are far ahead.

Richard Keary

Another point that maybe people miss is that there is no distinction between a hedge fund and a traditional asset manager in the licensing process. So unlike US or other places where there is a separation of traditional fund managers from hedge funds, here the regulator says, "If you are a fund manager, you are a fund manager." And the license process is such that if you say that you have some skill in foreign exchange, the regulator wants to see what that skill is. It will form part of your license application and becomes part of the review. The license is a very high hurdle to overcome compared to many other places.

There are many investors around the world who look at Australia and say it's the fifth biggest pension market now and it is going to be the biggest pension market in Asia within a short number of years. A great opportunity for local mangers lies in the huge local investor base which at this time can't be tapped for structural reasons. A number of things make it very difficult for this large pool of domestic capital to allocate money to local hedge funds.

So if we can overcome the impediments to accessing the local market, some of the issues around marketing to offshore funds is actually a bit moot. The onshore pool of capital is bigger than all of the local managers' capacity several times over. So the message then to an offshore fund is if you want some capacity, you should get here quickly because it's just not going to be there...for long.

Richard Keary

One of the things that comes out from everyone's comments is that they see their natural customer base as an offshore customer base. You talk about the inconvenience for offshore customers having to travel here to do due diligence and that it's true. People probably get to Singapore and just don't want to take the extra step. On the other side, there are many investors around the world who look at Australia and say it's the fifth biggest pension market now and it is going to be the biggest pension market in Asia within a short number of years. A great opportunity for local mangers lies in the huge local investor base which at this time can't be tapped for structural reasons. A number of things make it very difficult for this large pool of domestic capital to allocate money to local hedge funds.

So if we can overcome the impediments to accessing the local market, some of the issues around marketing to offshore funds is actually a bit moot. The onshore pool of capital is bigger than all of the local managers' capacity several times over. So the message then to an offshore fund is if you want some capacity, you should get here quickly because it's just not going to be there...for long. As I had mentioned before, I seeded John Coor's business. I more or less seeded Michael Brookes' business.... I seeded H3's commodity fund. The investment talent in Australia is experienced and well seasoned. Everyone says the search for talent is hard. Well there is a lot of talent here that is not that hard to access. If you look Asia, someone may have started as an analyst in an Asian investment firm, stayed in the same firm for five years after which he gets promoted to Chief Investment Officer. He may not be a really seasoned investment talent, but got the job because industry turnover is so great. However, the people who sit around this table are proven and seasoned investment professionals by any metric, and I think that's the message that should be sent out to family office and fund of funds. If they are looking for experienced investment talent in a great time zone; Sydney, Melbourne, Auckland are probably places that they should be looking at a bit harder. You just need to get on a plane...

What I don't like is the capricious offshore investors who come and go. Some of the local managers, starved of capital, do deals with some of these capricious investors which with the benefit of hindsight they probably should never have done.

Everyone says the search for talent is hard. Well there is a lot of talent here that is not that hard to access. If you look Asia, someone may have started as an analyst in an Asian investment firm, stayed in the same firm for five years after which he gets promoted to Chief Investment Officer. He may not be a really seasoned investment talent, but got the job because industry turnover is so great. However, the people who sit around this table are proven and seasoned investment professionals by any metric, and I think that's the message that should be sent out. **Richard Keary**

Matthias Knab **You mentioned the local pool of capital at one point maybe tapped for alternatives and hedge funds. How far is the regulatory regime, how far is the understanding?**

Richard Keary It's already happening, the capital which is deployed either by local investors into hedge funds or by offshore investors into local hedge funds stands probably at $70 billion. The investments have been flowing for several years and the rate of take up has actually probably been faster than in more mature markets. So, there's no fundamental issue investing in hedge funds.

Because distributions are aggregated into big lumps of capital, a manager with $200 million capacity is probably just not that interesting to a very big investor, whereas it's easy to write a $100 million ticket to a global fund of funds. Domestic investors are clearly prepared to allocate the hedge funds, but there is a mismatch between their requirements and what can actually be offered locally. Arthur, maybe you can share with us how Jana sees this issue.

Arthur Roumeliotis Yes, I have to admit, even as a fairly big player in this market, Jana Investment Advisors has probably not yet allocated locally, which is due to a number of reasons, but it's something I'd like to change actually.

A couple of things currently make it difficult for institutions to allocate to hedge funds. First - whilst the pool of money in aggregate is large, the number of individual pools which are big enough to start an allocation program to single strategy hedge funds is a much smaller number. Obviously, you need to dedicate a fair bit of money to hedge funds before you get out of fund of funds into the single strategy hedge funds. There are probably only five or six, maybe ten institutions locally who can do it, that's a really big barrier at the moment.

A second factor has to do with the know-how and understanding of single strategy funds. I am rather lucky because I have sort of been on your side of the table and I understand what you do, but to be able to explain your strategies to a client, to a trustee or present it to a board, that's a massive hurdle to overcome. It's getting better, but it is a hurdle.

A third issue is workload. Whilst much of my current due diligence workload centers on a fund of fund or a multi strategy, but looking at a single strategy firm can take me and a colleague probably three months to do the appropriate due diligence that I need. To do all that work and then get let's say $100 million of capacity, that's not really a payoff.

I reckon we will overcome these issues over time, because there is little doubt that the largest funds locally would like to invest directly.

Overall, Jana has a relatively large allocation to the alternatives - probably about 10% on average - that's a meaningful allocation. So, we have been in hedge funds - via fund of funds - for a long time. And, let me add, the fund of funds that we've got have done a really good job. The fund of funds, at least the ones we know, have done a fantastic at packaging diversified risk to our clients. But have they equally delivered fantastic returns? So, we need to address fees, as returns generally have come down but not the fees. While 15 years ago you were making 15% or 20% out of these hedge funds, today it may be 10% and 1% of that will be gone because of the fees, that is a substantial cut. We would like to see the funds deliver greater returns for what they're charging.

You have to be aware that for large institutions, hedge funds or fund of funds are just one asset class competing for allocations. Fund of funds doing 9% or 10% must compete more effectively I believe.

So, hedge fund of funds got to generate returns. Sure, they're delivering or reducing risk, and that's great, but they've also got to deliver returns, and if they're not going to deliver those returns, then rest assured fees must down.

As you are aware, a lot of the global fund of funds are trying to market to Australia. If you think about it, how many countries in the world have a pension pool of this size which keeps growing at 20% per annum? It is very attractive, but they need to be aware about the issues I had mentioned.

Nathan Cahill

There is a lot of competition for that capital, we are already seeing a lot of our clients coming from offshore to enter the local market for that reason. These are large hedge funds who have been around for 10, 15, 20 years and are spending $5 to $10 million to set up an Australian office. Hammering the pavement is not an obstacle for them.

Daniel Liptak

I have just completed a review the state of the Australian hedge fund market that we will be publishing shortly. The total combined investment into single strategy fund of hedge funds made by Australians approximately $87.5 billion dollars.

Two years ago I did a similar survey, at that time we had around about $50 billion raised from local investors; most of that money, 75% came from retail investors and only around 15% came from institutions. Today, around 35% of the total pool has come from institutions, which is a rapid increase. A lot of that has gone into fund of funds, and some flows went into long-short equity programs or quantitative funds.

I have just completed a review the state of the Australian hedge fund market. The total combined investment into single strategy fund of hedge funds made by Australians approximately stands at $87.5 billion dollars.Two years ago I did a similar survey, at that time we had around about $50 billion raised from local investors; most of that money, 75% came from retail investors and only around 15% came from institutions. Today, around 35% of the total pool has come from institutions, which is a rapid increase. We see that Australian funds tend to outperform their global peers by a number of percentage points...

Daniel Liptak

We see that Australian funds tend to outperform their global peers by a number of percentage points when compared against global hedge fund indexes, even allowing for currency differences. This outperformance is consistent to when I started to track domestic funds in 2000.

The other interesting fact is the failure rate of the Australian hedge funds is much, much lower here than in the U.S. We tend to find that the hedge funds in Australia give their money back to investors when their strategies no longer work. We don't seem to have the high degree of fraud that we have had in some other countries. We have seen some funds winding down but this is a result of the strategy no longer working rather than fraud.

Looking at the growth if the industry, we have had a rather steady number of new funds coming in each year. It tends to be about the same number, about ten to fifteen, in my view that's probably indicative of the state of the industry, as it is a rather immature and young market.

When it comes to the motivation of the new managers, we fund these are not as much newcomers attracted by the earnings potential for themselves, but rather serious professionals who want to be hedge fund managers and go after higher returns.

Richard Keary Back at BT I was a provider of a fund of funds too and sat across table from Arthur (Roumeliotis) and some of his colleagues...The perception in the late '90s when we first started developing these products, no one was interested because of the equities bull markets 15% returns or more, which was considered "risk free". However, even back then there were some very early adopters, not many, who saw hedge fund of funds as conservative investments and initiated small allocations. Then in the early 2000s people discovered that equities are actually not risk free; this was the first great kick start to allocations. The allocations increased fast then; the fund of funds that I ran grew by 50% per annum just every year.

During last three years, let's say to July 2007, we've had three consecutive 20% years in domestic equity markets, so people's perception of risk changed again and equity suddenly became risk-free again. And for many, the 9%, 10% or 11% you're getting from your fund of funds doesn't seem all that interesting. Looking at the situation today, those 9% or 10% for a rolling year through the end of January is substantially better than the equity market returns. So, I think we're at a point again with people's interest in the defensive properties of a diversified product will play out.

Going forward, investors who have allocated a lot to multi-strategy, multi-manager funds may not allocate a lot more capital to those types of funds. There are other categories of fund of funds which find some traction now with clients in Australia. An example of that would be Caliburn, which amongst other things runs an sort of very thematic beta-type emerging market exposure, which is quite different to the traditional multi-strat, multi-manager funds.

So I think that's probably the next wave of fund of funds: multi-managed single-strategy. Very large investors may use single-manager multi-strategy firms, but I am not sure to what extent, as the cost of governance and manager risk is pretty high. So I think fund of funds will enjoy the growth again because equity markets have proved that they are not risk free. Specifically, it will be the riskier fund of funds where the returns actually justify the fees that we will probably be the beneficiaries.

Michael Brooks I have been operating here in Australia for about seven years, and like all the others we have had the same issues like how to attract capital early on, struggling with capacity targets versus returns, or lifestyle versus marketing decisions etc. I even have come to the point where I understand the reasons why most of the investors in Australia have gone to large overseas fund of funds.

I think, most of the local hedge fund managers have decided, for various reasons, to stay a two- or three-man show. If you are any good, you can survive, you can get a $100 or $200 million under management. I believe this is probably a decision for all of us to make - if we are happy with such a set up. As managers, even though we like to be large, I'd say that most of us kind of come to the point where we are happy with a $100m or $200 million asset base which is large enough to operate in Australia and enjoy the lifestyle.

But the problem with that is that by doing so you don't really ever become attractive to Jana or other advisors, it will be difficult to take those hurdles where they need to see 15-20 people in the office or that you run multiple funds etc., all those things they usually get from the large overseas fund of funds or hedge funds.

So it's a battle that we have been talking about various forms for five or six years: how do you grow your fund, how can a local industry and managers grow and prosper. I would say there are about 10, 15 or 20 managers here running between $50 to $200 million, who would probably like to grow their businesses but in reality, these constraints are gong to be there.

We have to be either happy with that, or develop new products that are going to be more attractive too the large investors. One possible way of achieving this could be if some managers get together to from a group, a new unit made up of four or five funds instead of starting out or remaining on your own. Until we do that, it's going to be difficult to compete with the large hedge funds overseas.

Matthias Knab

That's what I actually observed in New Zealand with NZARA, the New Zealand Absolute Return Association. For instance, they help out each other and create synergies. A new manager can start out at a very low operational cost. These cost savings through cooperation come on top to the generally lower cost base you enjoy by not operating out of New York or London. This probably holds for Australia too.

Michael Brooks

Absolutely, there would be serious benefits there if you get together with some other people. However, if you have started your business up from scratch and worked very hard for three or four years to get the returns and get the $100 million, it will be a challenge to work out how you can bring a couple of those businesses together. But until we do that, I really think we are going to be sitting here a few years with the same structure.

Matthias Knab

Matthew Kaleel from H3 mentioned he would open an office in Singapore. Is this something that more people are considering, opening up an office in Singapore, Hong Kong, London?

Matthew Kaleel

Last year, to get over this issue, we've been talking, we sold part of our business and took on an equity partner, Ascalon, to help us get through exactly these issues. Ascalon is co-owned by St.George Bank and Kaplan Equity and takes stakes in boutique managers. As soon as we did that, within three months, we were starting to meet the advisors, the super funds who would never have even looked at us. What happened was that the perception had changed, we were no longer a family business or a couple of guys running some models to an institutionally backed hedge fund. It gives you the opportunity to re-brand yourself. In addition, Ascalon is looking at setting up a group office in Singapore to present of their manager stable, which is another huge benefit.

Damien Hatfield

When it comes to raising assets, I've found that you can't expect big investors to turn up in Sydney on your doorstep. What you've got to do is aggressively travel if you want to actually raise money. Prior to setting up Hatfield Liptak, I represented two hedge fund managers and with each one, we aggressively traveled. We did Asia, Europe and the U.S. twice; we saw all the major fund of funds groups, family offices, private banks etc. These are the people that you've got to get to and present yourself.

Coming back to Michael Brooke's comment about being a small entity, so how can a manager get away from running the portfolio and travel. Sure, you can take on a marketing person but, at some point, the investors want to talk to the portfolio manager. So these are challenges that an Australian hedge fund manager or many smaller managers have, but in terms of, as I call it "aggressive travel", the results may speak for themselves. For the first manager we raised about US$190 million in 18 months, during which we did about 10 global road shows. The raised funds came 95% from offshore and 5% out of Australia. For the second manager we raised about $50 million in seven road shows. We had a little bit of fund flow from Australia but the bulk was from offshore.

I suggest that in order to build a business and get a significant amount of assets, you have got to set out a travel program each year and you need to identify and be very focused as to who you present to. It's obviously a challenge for a small hedge fund manager to take the time off and to travel so much. It depends on the strategy and their process, but I do find that a lot of managers are able to travel with Bloomberg and they do meetings during the day and work with their home-

Let me share one of my favored views. There's probably $300-$500 billion in institutional money probably managed out of Australia, and 30-40% is invested in Australian equities, which of course is pretty much a pure beta exposure.A possible strategy may be rather than investing all of this in long-only, take about 5% or so and and put it into Australian long-short strategies.

Arthur Roumeliotis

based team during the night, which is often possible due to the time zone differences. Yes it is a major challenge in terms of running a business as well as travel and doing the road shows; but unless you are prepared to do the road shows the asset raising can take a long time.

Arthur Roumeliotis

Let me share one of my favored views. There's probably $300-$500 billion in institutional money probably managed out of Australia, and 30-40% is invested in Australian equities, which of course is pretty much a pure beta exposure.

A possible strategy may be rather than investing all of this in long-only, take about 5% or so and and put it into Australian long-short strategies. I believe that makes sense. We could run this allocation through a long-short fund of funds with a couple of managers, this could help us all and can add let's say $100 million into each single manager.

The thing we have got to overcome is the charging structure, because clients very much care about fees. The challenge will be to how to package this investment in a way where the packager and the underlying manager are getting enough and we are getting a good deal for our clients, because it is wholesale money. If we can get this solved, this could be an efficient way to overcome these allocation issues.

John Corr

Let's take a closer look at this fee discussion. The problem with fees is that they may look expensive when you compare it to pure beta, and pure beta looks great when the market is going up. In our case, we are talking about products that will look okay when the market is going up, but will deliver when the market is going down.

Let's take a closer look at this fee discussion. The problem with fees is that they may look expensive when you compare it to pure beta, and pure beta looks great when the market is going up. In our case, we are talking about products that will look okay when the market is going up, but will deliver when the market is going down.
What happens next is when the market is falling and investors start saying "we can't just play for beta that goes down, we have to diversify it..." However my fear is that by the time the local super funds look to allocate to the smart local managers, they - or at least the legitimate market neutral funds - will be full, the market will be at its bottom and they'll pay bad people big fees for under-performance. John Corr

What happens next is when the market is falling and investors start saying "we can't just play for beta that goes down, we have to diversify it..." However my fear is that by the time the local super funds look to allocate to the smart local managers, they - or at least the legitimate market neutral funds - will be full, the market will be at its bottom and they'll pay bad people big fees for under-performance.

Without trying to be rude, or well being rude without trying to, could it be that it isn't really a problem of size but rather of the speed at which institutional funds move, may be they are just too slowly to time it properly.

Matthias Knab

That was very elegant.

Arthur Roumeliotis

But it's a fair point, I think. The speed is always a problem, especially at the beginning of an allocation, the due diligence. Once you get over that initial hump, I figure it will not be a problem. There is a bottleneck when it comes to that, you have to be aware that all these large hedge funds and multi strat funds all knock on Jana's door. We have had 150 manager meetings last year, and out of those only a relatively few have made the grade. The quality of hedge funds that come through my desk is incredible.

Matthias Knab **I want to ask briefly Andrew, you are with Macquarie, which is, of course, a large institution. How does Macquarie set up and operate hedge funds?**

Andrew Alexander I am part of the MQ Specialist Investment Management division of Macquarie Group. Our business strategy is to identify, develop and deliver unique alpha offerings across a range of different strategies. The challenge is to find the right skill sets and then combine this with MQ's support.

We have large advantages when it comes to infrastructure and marketing. We have built a platform which can grow from people either joining and effectively "plugging and playing" or developing new strategies with the backing of proprietary capital. We can offer key execution, back office and middle office systems (including attribution) and have real marketing power (with marketing operations in London, the US, and in Asia). Our ability to attract the interest of the highest quality investors has been cemented off the back of the award winning MQ Asia Long Short Fund and the MQ Special Events Fund.

So, it's relatively easy for us to take products and deliver them on a global basis with everything an investor would be looking for. This is a different environment to the picture painted by some of the other hedge funds represented here today. Our model is well suited to those that really want to focus on investments.

Matthias Knab **How many funds are actually in your group working under such an arrangement?**

Andrew Alexander Well, it is currently about six but we are looking for new opportunities all the time. We just launched a new quantitative strategy on Monday that employs state of the art evolving non linear genetic algorithms in the Japan equity space.

Matthias Knab **Are you mostly looking for local talents?**

Andrew Alexander Not only local but also international, especially those looking to return to Australia or those looking for a higher quality lifestyle. For example, from the last group of people that joined, two out of three are from the United States.

One advantage I'd like to add as to operating out of Australia is that we can get very easily locally educated staff with Asian language skills. That's certainly a key benefit to us - about half of our staff are Asian speaking. It makes a difference in terms of investing into Asia and also for managing assets coming out of Asia.

Currently we have about six hedge fund managers on the MQ Specialist platform, which is a division of Macquarie Group, but we are looking for new opportunities all the time. We just launched a new quantitative strategy on Monday that employs state of the art evolving non linear genetic algorithms in the Japan equity space. We not only look for locally for talents but also international, especially those looking to return to Australia or those looking for a higher quality lifestyle. For example, from the last group of people that joined, two out of three are from the United States.

Andrew Alexander

I have to agree with what was said earlier, Australian hedge fund managers are taken up quicker by overseas rather than local investors. Our strategies typically have larger capacities on offer and

overseas investors did make the effort of coming to see us. With Macquarie's backing there are fewer due diligence issues and they are attracted to our performance and reputation.
We have also noticed sometimes a higher level of motivation with overseas investors; in some cases they are family offices and the person coming to see is actually the one benefiting from the investment. This is different to say an Australian trustee group whose job is often more being the prudent man rather than making money. In addition, often local investors may not have the same skill set and experience required to understand some of our strategies. Most of the local money that we have is indeed via foreign funds of funds.

Michael Brooks

One thing I would like to highlight, because I think we all suffer from this in one way or another, is the local media coverage. I mean even since I've started, I have almost never seen a good article about hedge funds written here in Australia. The last week short selling; it was a bad thing they said, it hurt everybody in Australia all those hedge funds shorting stocks. You almost get this reaction "“oh, you're a hedge fund manager, alright, you steal children or something..." It can be really appalling...Some time back there have been various people that have actually written good, explaining hedge funds etc., but the last three years with the strong markets they seem to have gone, I don't know where...

Matthias Knab

I can share with you that is an issue which many hedge fund managers also in other places suffer from, if that gives you some comfort...With these Opalesque Roundtables, we want to counter-act and contribute to a better understanding , increased transparency and appreciation of our space.

Opalesque

Opalesque leads the finance media space for its in-depth and innovative products. Since February 2003, Opalesque is publishing Alternative Market Briefing, the premium news service on hedge funds and alternatives. The launch of these Briefing was a revolution in the hedge fund media space ("Opalesque changed the world by bringing transparency where there was opacity and by delivering an accurate professional reporting service." - Nigel Blanchard, Culross) combining proprietary news with the "clipping service" approach of integrating third party news. Each week, Opalesque publications are read by more than 360,000 industry professionals in over 100 countries.

Opalesque is the only daily hedge fund publisher which is actually read by the elite managers themselves (www.opalesque.com/op_testimonials.html).

About Opalesque Publications

Alternative Market Briefing

A daily newsletter on the global hedge fund industry, highly praised for its completeness and timely delivery of the most important daily news for professionals dealing with hedge funds. Alternative Market Briefing offers both a quick overview and in-depth coverage. Subscribers can also access the industry's largest news archive (26,000 articles as of March 2008) on hedge funds and related topics.

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Opalesque A SQUARE = Alternative Alternatives is the first web publication, globally, that is dedicated exclusively to alternative investments. A SQUARE's weekly selection feature unique investment opportunities that bear virtually no correlation to the main stream hedge fund strategies and/or distinguish themselves by virtue of their "alternative" motive - social, behavioural, natural resources, sustainable /environment related investing.

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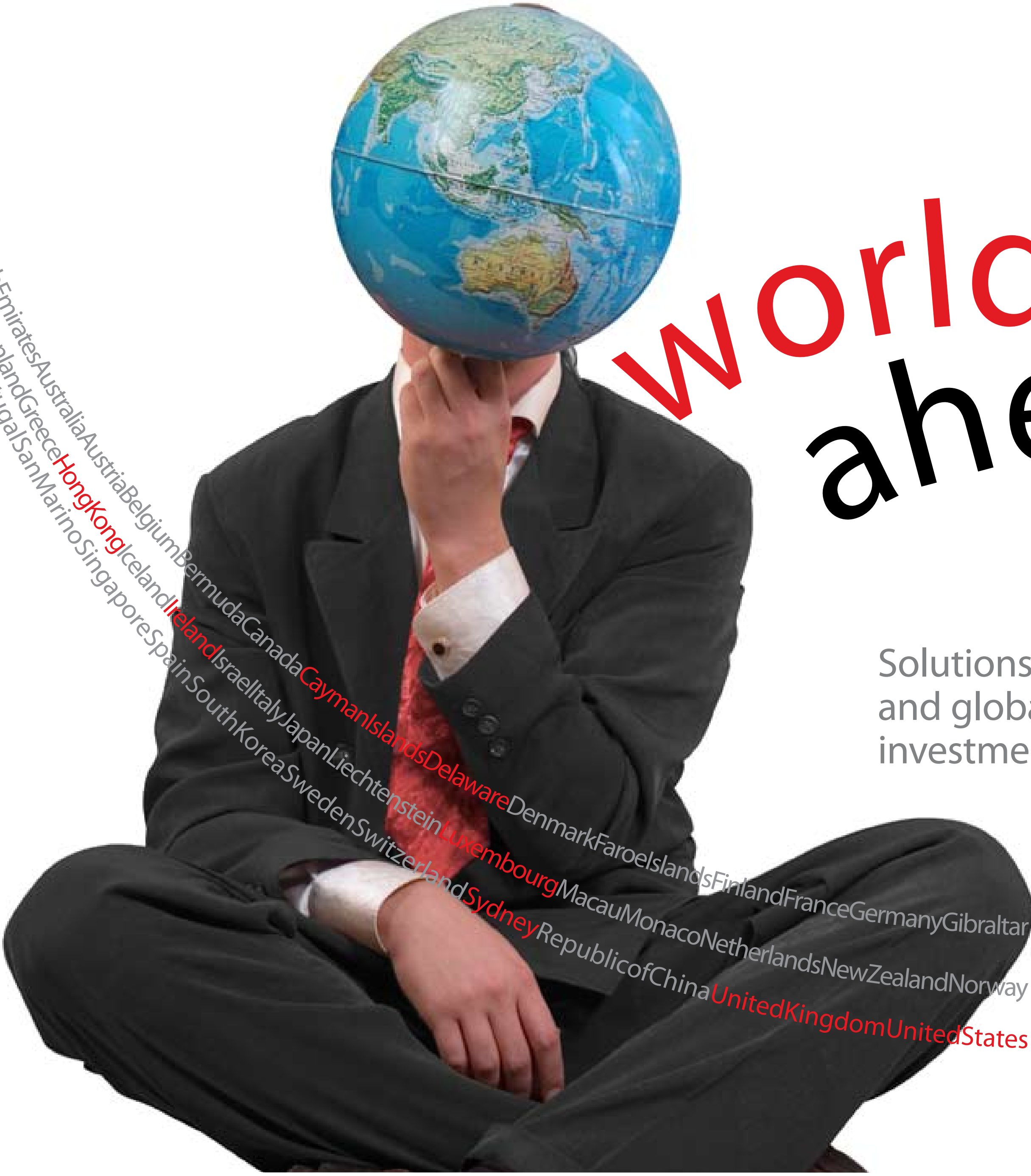
Opalesque Roundtable Series

In an Opalesque Roundtable, we unite some of the leading hedge fund managers (single and multi strategy managers) as well as representatives of the local investor base (institutions, fund of funds, advisers) to gain unique insights into the specific idiosyncrasies and developments, the issues and advantages of individual global hedge fund centers.

No matter if you are a hedge fund investor looking for new talent, a hedge fund interested in diversifying your investor base or a service provider looking for new clients, you will get to know some of the leading heads of each hedge fund center and find invaluable information and intelligence right on your desk, without any travel involved.



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