



# Opalesque Roundtable Series '17

# NETHERLANDS

Opalesque Roundtable Series Sponsor:



# Editor's Note

## The Bubble of Everything and the Failure of “Traditional” Investing

It could be well argued that at the moment equities are highly valued, bonds and real estate are overvalued, and what to do with private equity with one trillion waiting for an opportunity? How can we invest if we want a low or controlled risk and an acceptable return? (page 6)

And, *how can we make sure that in a world with accelerating changes rattling the foundations of conventional investing, our investment ideas and investment strategies are not implicitly founded on structures that are disappearing?* Even central banks, which for generations were followed blindly, have lost their authority and dominant role since 2016 (page 7,8).

At the same time, some deep thinkers believe that “**traditional**” investing has deviated 180 degrees from its traditional role, and needs to be repositioned (page 25, 26, 30).

The Opalesque 2017 Netherlands Roundtable, sponsored by ABN AMRO Clearing, took place in Amsterdam and offers some unconventional perspectives. Hear from:

1. Harold de Boer, **Managing Director, Member of Management Committee and Member of Board of Directors, Transtrend**
2. Pieter de Vries Robbe, **Director Operations & Business Development, Capstone Investment Advisors**
3. Rob van Kuijk, **CEO, Finles Capital Management**
4. Arent Thijsen, **CEO, Partner, Blauwtulp Wealth Management**
5. Gildas Le Treut, **Global Head of Prime Brokerage, ABN AMRO Clearing**
6. Jos van Trier, **Partner/Founder, TRZ Funds**

more about questions such as:

- What are some strategies Dutch investors prefer at the moment? (page 6-10, 13)
- Can CTAs still make money in today's environment (page 6,7)? Is this the right moment to get into illiquid markets? (page 10)
- **False promises: The frightening growth of investments in products that are ‘officially’ but not really liquid (page 10). When VaR becomes a risk (page 11)**
- Is there a point where a trading strategy can become too complex? (page 14)
- **Why more data doesn't mean more information. It's like searching for wild boars in a forest; more trees doesn't mean more boars (page 14)**
- Unintended consequences: How the move from floor-traded markets to screen-traded markets can haunt investors and traders (page 14)
- Why and how specifically should managers **communicate** who they are and how they invest? (page 15)
- Challenges and limitations of using **artificial intelligence** in investment management (page 14-17)
- How to do an ICO (**Initial Coin Offering**) the right way (page 17 – 22)
- What is **the value of bitcoin** and why? (page 21 – 23)
- Why there is a simple, real and practical **way out of the “debt trap”** of economies (page 23)
- How **family offices** and investment managers are forging closer ties (page 24)
- Where MIFID II is wrong on transaction fees with detrimental consequences for investors (page 26)
- Why **passive investing isn't responsible investing** (page 28)

Enjoy!

Matthias Knab  
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# Participant Profiles



(LEFT TO RIGHT):

Pieter de Vries Robbe, Arent Thijsen, Harold de Boer, Jos van Trier, Rob van Kuijk, Gildas Le Treut

# Introduction

**Rob van Kuijk**  
Finles

I started at Finles in 1994 as a 5% shareholder. Since last January, I own 100%. I am the CIO of the regulated part of the company.

Before Finles, I was a director at Delta Lloyd Life Insurance. And before that, I worked in auditing at Van Dien & Co., which is now PWC. We service predominantly professional clients and indirectly private clients.

**Gildas Le Treut**  
ABN AMRO Prime Clearing

My name is Gildas Le Treut. I'm the global head of Prime Brokerage at ABN AMRO Clearing. Prime covers a broad client base, so we are focusing on servicing banks, insurance companies, asset managers, and hedge funds.

As their prime broker we provide them with global execution, clearing, liquidity, financing and custody services. We have a specific focus on CTAs, quants, market making and arbitrage strategies. Our model offers the capacity to correlate asset classes and provide proper financing based on an holistic view of their portfolio. ABN AMRO Clearing has a fantastic footprint on arbitrage, high frequency, market making, stat arb managers.

**Harold de Boer**  
Transtrend

My name is Harold de Boer. I joined Transtrend in 1989 to finish my Mathematics study at the Universiteit Twente there in the form of an internship. At that moment, Transtrend was a research project within an international grains trading firm. Transtrend spun out of that firm in 1993; from that moment onwards, we have been investing for external investors as well.

**Arent Thijsen**  
Blauwtulp Wealth Management

My name is Arent Thijsen. I'm the CEO and shareholder of Blauwtulp Wealth Management. We are a multi-family office and also run a fund of hedge funds.

**Pieter de Vries Robbé**  
Capstone Investment Advisors

My name is Pieter de Vries Robbé. I am the Director of Operations and Business Development of Capstone Investment Advisors (Netherlands), B.V. (Capstone Netherlands). I have been working for Dutch pension funds since 1995 in a wide range of roles. Since 2008, I have been working with Gerlof de Vrij and his team, initially at APG Asset Management (APG). Gerlof's team spun-off from APG in 2012 and joined Blenheim Capital Management. As of July 2017, the team is now a part of Capstone Investment Advisors, LLC (Capstone). Capstone is a \$5 billion global hedge fund manager that has specialized in trading volatility as an asset class since the firm's inception in 2007. Capstone Netherlands follows a global macro strategy that was originated at APG back in 2005, which we have continued to develop since.

**Jos van Trier**  
TRZ Funds

My name is Jos van Trier. I am the founder and CEO of TRZ Funds. Our hedge fund is focused on a mix of active trading strategies that came out of the proprietary trading world. Many of the strategies focus on arbitrage trading, and all of them are systematic.

My background is technology; I obtained a Ph.D. degree in Geophysics from Stanford University and worked most of my career is in the software industry. I started the company in 2007, also with a technology focus, initially developing automated trading systems. Since 2010 we are running a systematic arbitrage hedge fund, where the underlying trading models and their execution is still very much technology- and software-driven.



**ABN AMRO Headquarters**

# Save the date 6 & 7 March 2018 The Amsterdam Investor Forum

**ABN AMRO Clearing** is pleased to announce the **Amsterdam Investor Forum 2018** will take place in Amsterdam on the **6th & 7th of March 2018**.

Now in its 7th year, the forum will invite a select group of Institutional investors, fund managers and industry participants to provide insight on the important challenges and opportunities of our industry in 2018.

The forum has always proven to be an invaluable two days for both investors and fund managers.

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**ABN AMRO Clearing**

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1082 PP Amsterdam  
The Netherlands

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Matthias Knab

Let's start by looking at how your funds or your investments are doing or where do you see opportunities? Arent, as an investor, what are you doing at the moment?

**Arent Thijsen:** As a manager of a fund of hedge funds, we look at different strategies, but especially into systematic trading funds, and particularly CTAs and managed futures. We see a lot of opportunities over there and a lot of potential.

While 2016 was quite disappointing, we still see that it's the only real diversification to bonds and equity. That's the reason why we are still invested in this segment.

Last week, I read article, what was called **The Bubble of Everything**, and the point was that at the moment equities are highly valued, bonds are overvalued, real estate is overvalued, and in private equity one trillion is waiting for an opportunity. Where to invest your money at the moment, especially when you prefer the lower risk profiles, is really a challenge at the moment. But this is what we are looking: real opportunities with a low or controlled risk and an acceptable return.



Gildas Le Treut

In which type of managers do you invest? Are you more into the large managers or the smaller and emerging ones?

**Arent Thijsen:** It's certainly a combination. We have a core portfolio of large established CTA managers. But we like very much to **diversify to niche funds with special edge**. It can be emerging or also very small.

In 2016 we found that the only managers with a good performance were the real small emerging managers in long/short equity funds. Some of those funds were up over 20% that year and so far in 2017 are up almost 30% and some more. So, it is still possible to get return when you look for those type of special investments, but we also need to be aware that high return is also high risk.



Gildas Le Treut

What would be a typical size for your allocation?

Arent Thijsen

We try to keep it below 2 million each for each allocation.

Pieter de Vries Robbe

I think most of the people will agree that it has become a challenge to find good investment opportunities. Can you explain why you end up preferring CTAs?

**Arent Thijsen:** Well, one aspect is that we are having a long term experience investing in CTAs. If you look from 1990s until now, there is **no other asset class globally who has been performing in such a stable and controlled way**. Performance has been far higher than in equity while the draw downs are much lower, and the correlation to equities is zero or negative. So here you have some of the reasons why we add CTAs to our portfolio. *We can lower our bond exposure and take a higher equity position due to this low correlation.* This means that our returns in a portfolio can compete with all normal standard portfolios, but our risk profiles are more controlled.

So we like systematic trading, and CTAs are one part of that bucket. We also like long/short equity as long as it is systematic, or global macro or CTAs, but it has to be systematic. And from the systematic side, I don't see that much of a difference between global macro and say a large CTA, it's kind of a gray or blurred area, and it comes down to how do you want to call your fund? But again, *it has to be systematic. We don't believe in star managers or those kind of things.*



**Rob van Kuijk:** The scientific problem I have with systematic trading from what I've all studied, is that there's no consistency in alpha.

So although I am a big lover of CTAs, that would be my critical point. If 25 years ago you would have put all your money in about 10 good CTAs and you've kept it there, you would have had a really stunning performance. 2008 was also a super year for CTAs, but most systematic funds, no matter what type of trend following, have had a difficult time the last years. If there is a clear trend, CTA's can make a lot of money. You can see some young ones coming up with a new gig and they do well, but the question is always, how long can they continue to perform well?

I was very enthusiastic doing due diligence on a good CTA in London, they had a 17 years stunning performance track record and then suddenly last year, minus 24%. In all the 17 years before they were one year down 7% and one year down 3%, and then suddenly in 2016 - bang! - minus 24%... So once again the proof of the problem I have with systematic: it works until it doesn't work anymore.



**Harold de Boer:** If you define systematic as something that should never be changed, then you're right. But that's the wrong approach. It's just like **competing in the Tour de France on a bike that won the Tour de France in the 1950s**: you're not going to win. Winning the 2018 Tour de France requires a 2018 bike.

*Over the last few years, the world has been changing rapidly. Old structures are losing their control. People are on the move. They are no longer a flock of sheep following their shepherd. They are no longer following their priest or preachers. Nor the medical authorities telling them they should vaccinate their children. Nor the chief editor of their newspaper who filters the true story from the gossip and the rumors. Nor the teacher who tries to educate their children. And not their political leaders who in the Netherlands used to lead their 'zuil' (traditional segment of the Dutch society). That's all gone. People don't follow authorities anymore. Brexit and the election of Trump are just two manifestations of this change.*



*The last authorities that were still accepted as leaders, at least in the financial world, were the central banks. Investors followed them blindly. For instance by anticipating the assumed response of central banks to a wide variety of macroeconomic numbers. But since last year, since Brexit and Trump, also the central banks are losing their authority, their dominant role.*

People are on the move. And these people, moving in an uncontrolled way, are moving the markets. For investors, this offers investment opportunities. This offers risks. And this offers challenges. And the biggest challenge is: **how to make sure that our investment ideas and our investment strategies are not implicitly founded on structures that are disappearing?** This is really what's going on now.

What I observe is that *stock markets have been adapting much quicker to this change than other markets like interest rates and currencies*. Just look at the different behavior of different stocks since the Trump election. Take healthcare stocks and how they have moved in different ways, following discussions – or tweets – that some medications are way too expensive and that this should be changed. Or that Obama-care should be abolished. These are not central bank or central government-induced moves, they are caused by people on the move. Or look at how retail stocks are now moving differently from other stocks, all because people are more and more buying things on the internet and not in shops anymore. That's another one of these big trends, fueled by people on the move.

So, we're now in an environment where stocks really go in different directions. Three, four years ago, if for instance retail numbers would come out, the market as a whole was thinking just one question: *"How is Yellen going to respond to that?"* or, *"How is Bernanke going to respond to this?"*. And that impacted all stock markets similarly. And also most interest rate markets and currency markets. Today, on retail numbers retail stocks tank or shoot upwards while other stocks hardly move. I consider this a healthy development. But it is a significant change.

**Arent Thijsen:** In the equity markets, as you said, that change has been happening fairly quickly, but let's not forget that there is still a powerful influence of global politics. And some niche markets are extremely hit by that.

If you look, for example, at **Russia**. Matthias had also asked about opportunities, so at the moment we see again opportunity in Russia where at the moment we are starting again to build up positions. Just looking at the bigger picture, Russia seems to be hated by the whole world, there are sanctions on sanctions on the country, Putin is considered a jerk or whatever, but here is a stock market with an average PE ratio of 7.6, average, with growth rates most companies in the west can only dream about.

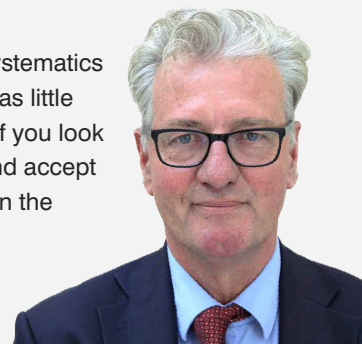


These firms came out of a situation with everything against them. For example we are invested in the Prosperity Quest Fund which so far this year returned 29% in US dollar terms while the market is 20% down. They started in 2000 and have returned 6500% since then, so an incredible return.

So in the stock market, there are still rich spots. One thing we look at or ask ourselves is *where is fear, where is risk?* Because only there you can make money.

**Jos van Trier:** I'd like to go back for a moment to our discussion on systematics.

I find the same as Harold, systematics work, but you constantly have to work on adapting the systematics as the markets change. In our field, we have seen that over the last six to twelve months there was little volatility in the equity markets, which has meant for us that there are less trading opportunities. If you look back at history, we have seen those periods come and go, so partly you have to accept them and accept the fact that performance will be affected. On the other hand, it's not predictable when volatility in the markets is going to come back, so you have to adapt.



**Rob van Kuijk**

How do you adapt?

**Jos van Trier:** Our core equity strategies are always very stable, but returns diminish as trading opportunities diminish because of the current low volatility in the equity markets.



It's hard to boost returns without increasing risk, but we have found some other things, like changing holding periods or execution methods. We have also added some derivative strategies that perform in low-volatility markets. These strategies introduce more risk, where finding the right balance between risk and return is a challenge, but the extra diversification certainly helps. So, it's a constant effort, but you have to adapt.

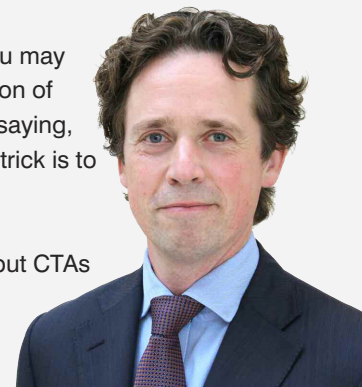
**Pieter de Vries Robbé:** I think that, around the table, we agree on one thing, and that is the need for dynamics. At the same time, the passive investor has done very well over the last years. Since the Great Recession, passive investor returns have been great. But this is something that people should realize is now behind us.

So the question really is, *with all assets classes relatively rich, how will you invest going forward?*

We believe the key is very much in identifying the right dynamics. There will usually be cheap and expensive assets that offer opportunity. The trick is to have a structured process around your risk allocation, and that can be systematic – which you will have to continue to develop and adapt, as we said.

With a **systematic approach**, you can take a lot of small bets. With a discretionary approach you may be able to identify great opportunities and enter into somewhat larger trades. And the combination of both may actually create a dynamic of its own with a more robust return stream. As Harold was saying, when markets go through different phases, you will see that different approaches will work. The trick is to always have a mix of dedicated approaches that will work under all environments.

2008 was very challenging, especially for people who had a lot of leverage, concentrated bets, but CTAs did great. Valuation did great in 2009. So, different approaches work at different times. The ideal way to go about it is to design a structured process to dynamically allocate over time.





**Rob van Kuijk:** In 2006, I was getting scared for the equities market and I didn't want to go into the bond markets either. So we were looking at **alternative credit**. We did a lot of research, and I invested in about 15 direct lending type of funds. Now, there was a perfect storm in '09 for these strategies, as you all know, whereby the fund managers had to take possession of the collateral. All those doing more short-term lending have found that the banks didn't take up anything anymore. And of course with taking over the collateral, we ended up with owning illiquid more private equity types of investments instead of relatively liquid loans in your portfolio. Since 2009 we are still unwinding this positions. This year for the last year. End of this year all positions will be sold finally.

*But today, I think alternative credit is interesting again.* The banks are retreating more and more – maybe they're coming back a bit, but still alternative credit has a massive place to grow right now. You also see this in the number of direct lending funds that are coming up. This is in my opinion a good alternative for bonds.

#### Pieter de Vries Robbé

For me, there is a deeper question behind that, and this is illiquidity. The first thing that jumps to my mind is that currently we are in a low volatility environment.

People are willing to take illiquidity to get some extra yield pick-up. But the question is: is this the right environment to invest in illiquid assets?

**Harold de Boer:** So Pieter's question is if this is **the right moment to get into illiquid assets?** If you are aware that what you're buying has a low liquidity and you make a conscious choice, then there's nothing wrong with that.

The problem at the moment – the real problem – is that central banks after 2008 have stimulated pension funds and other institutional investors to have more liquid portfolios and invest in more liquid products, because investing in liquid products helps them with their coverage ratio. This, in turn, stimulated the **growth of investments in products that are 'officially' liquid, like all kinds of ETFs, but that are not really liquid**, especially not at the moments when you believe they should be liquid. A warning shot was fired in August 2015, when some of these ETFs were down 45% for a brief period of time. But that was just a warning shot.

Investors therefore have to question their assumptions about liquidity. **Is something liquid because you can sell it every time you want to?** *I can probably sell my house within a minute whenever I want. But I won't get a decent price.* Such 'liquidity' means nothing. Liquid really means that you are able to buy it or sell it at a good price within a reasonable amount of time without significant market impact.

But as an investor you should then ask yourself: is that really my role in the marketplace? Isn't the role of an investor to get a risk premium by **not selling when everyone is willing to sell, but by buying when everyone wants to sell?**



Take the IT bubble in 2000 as an example. When it burst, our trading program profited. But – contrary to what some people think – not by selling during the collapse, but by being short already **before** the collapse. During the collapse we were only buying.

The idea that as a large investor you can protect your investment by quickly selling when the market is seriously turning the other way is not going to work.

Instead, this will cost you more and more liquidity premium that you have to pay at that moment. And it will have a devastating effect when many investors do so simultaneously. I feel this is a **very serious systemic risk** in the markets today, fueled by many investors with over-expectations about the liquidity of their investments, and amplified by the more and more rigorous use of VaR measures. Because a serious weakness of most popular VaR measures is that they overreact to extreme market moves.

**Rob van Kuijk**

VAR doesn't help at all. Real risks are outliers.



**Harold de Boer:** In itself there's nothing wrong when a VaR measure overreacts. It becomes a problem when people act on it.

So if there's a big market sell-off and as a response the VaR overreacts and shoots up, then many investors are kind of **forced to sell because they have to stay within their VaR limits**. And this selling will then be done in an already collapsing market. This way, the more and more rigorous use of VaR measures undermines the stability of markets.

It's the type of risk management practice that *works well as long as it is not needed*. Just like Bernanke observed after the credit crisis about their standard models that proved to be "successful for non-crisis periods".

Going back to Pieter's question: it's safer for people to be invested in something that is not liquid and knowing that it is not liquid, than being invested in something they think is liquid but in reality isn't.

**Pieter de Vries Robbé:** I fully agree. An important aspect is that the investor must have the capacity to *absorb illiquidity and to sit through an adverse environment*. This capacity could be defined as the ability to absorb illiquidity minus the degree that it has used this ability. So, even a pension fund with a long term horizon will become a short term investor when it has overloaded on illiquid assets.

This means that you are going to be squeezed out the next time the market turns. I think that latter part is poorly understood. The second question is whether you are getting an attractive premium for illiquidity or not. As Harold pointed out, this premium is high when market is in stress.

I suspect that illiquidity premiums currently are historically low. And therefore, *the question is, whether this the right moment to invest in illiquid assets or is this now the moment to reserve capacity to invest when things turns sour?*



**Rob van Kuijk:** I fully agree with Harold's thoughts, and by the way, that basically holds for the whole monetary system. If everybody runs to the bank today to get his money, the system blows up, and it's basically the same thing with ETFs, it's not different.

I also want to share a few thoughts on **private equity**, which is a word that can stand for many differing strategies. If you look at the startup, the scale-up, or the new technology scene, like Arent said, there is so much money in the private equity space that cannot get employed because these parties and funds are so big – think of the Softbank-Saudi tech fund, the world's biggest PE fund with \$93bn alone, they cannot do \$3m, \$4m or \$5m investments. But that space of relatively smaller investments in new technology in smaller companies, the start- and scale ups, is dynamic and very interesting if you want to get some illiquidity premium.



Of course we know that many startups blow up and don't make it. Now crowdfunding is adding a certain momentum to this market. The new technologies and new approaches in this sector, is for Finles absolutely part of the way forward. Therefore we are also putting a lot of time and effort on this particular space.

**Gildas Le Treut**

Rob, I am curious, how exactly you are invested and what are your plans?

**Rob van Kuijk:** Well, we run a small private equity fund and how we ended up running that fund is also an interesting story. This fund was run before by a small company, but the fund was really tiny: a small fund with three companies and EUR 7.5m nominal invested money. The financial authorities forced them to get licensed. They came to us to create a regulated fund structure. We have been managing it now for about one and a half year. At Finles we don't serve private clients directly but focus on professional clients. Now we suddenly have a group of private clients in a private equity fund again.

We plan to make this fund, the Finles Next Generation Fund I, much bigger. So this fund will be directed at private investors and focus on new technology companies. We've already selected quite a lot of them. The next step will be launching Next Generation Fund II, which then will be directed at professional investors.



**Pieter de Vries Robbé:** If we are talking about illiquidity premium, like Rob investing in private equity, you are actually investing in different factors. As we all know, we can decompose the return stream that you get out of any other asset class. Most asset classes are mixes of different factors. I would say the argument you made for private equity is a sound one if you expect the earnings growth or the PE expansion to be exceptional, and that is your premise to invest.

However, I think you also realize that the illiquidity premium you are likely to receive is rather small under the current circumstances. So, every asset class contains its own mix of factors. As long as you have that in mind, you can make a conscious decision whether or not to invest.



**Rob van Kuijk** I totally agree.

**Arent Thijsen:** We at Blauwtulp really dislike illiquidity. We actually hate it and avoid it at any cost. So Rob, you can have it, but we don't compete in this market. However, we also think that private equity is a very interesting asset class at the moment, but not the process of investing in private company, but looking at **listed private equity** at the moment in the market.

The investment cycle of a typical PE investment is around about 10 years, so all the money that was invested in companies in 2008 and 2009 are now coming to harvest. The market conditions to sell these companies are excellent, their bonuses and premia in all these deals are exceptional. What we are doing is buying listed private equity funds based on that positive expectation over the next two years. And after that, we can sell them at the stock market.



**Pieter de Vries Robbe** But isn't that priced in already?

**Arent Thijsen:** No, it's still coming in. Of course you have to do your homework and all the calculations. We also checked from a systematical perspective if there are buy signals for those funds and found that there still are some really interesting opportunities within this market.



If you allow me, let's leave PE for now and go back to the large CTAs, as I have a question for Harold about those.

I wonder, when you run a large, diversified CTA and keep developing your program day after day, I wonder at which point will this behemoth become too complex or too complicated? **Is there a point where a trading strategy can become too complex?** Are you still able to understand or direct or coordinate such huge systems each time when you are actually adding or removing something? Do you think such super large trading systems can still adapt to all market changes quickly enough?

**Harold de Boer:** This is a tricky question as the situation will be different for each of those large firms you are referring to. What I see happening is that the large CTAs are becoming **more different from each other** than they used to be. We all make choices, and we all make different choices. For instance, some CTAs have started to work a lot with artificial intelligence. This is one of the possible answers to the nowadays almost unlimited availability of 'big data'. We consciously decided not to go in that direction.

In our view, more data doesn't mean more information. It's like searching for wild boars in a forest; **more trees doesn't mean more boars**. It just makes it harder to find the boars. *We believe understanding the behavior of boars helps more than developing techniques that search behind more trees.* Or in markets, we need to understand the market dynamics and in what respect these dynamics are changing. Artificial intelligence by itself will not lead to this understanding. In fact, it may even be used as an excuse for not needing such understanding.

I talked before about structural changes. One of these changes is the **move from floor-traded markets to screen-traded markets**. How did this affect the market dynamics? What consequences did this have for the information that can be extracted from price data?

A great example is the meaning of 'the open'. On floor-traded markets, there was an equilibrium process without trading. In the hour before the market opened, market participants called their brokers and told them what they planned to trade. And brokers typically replied with remarks like "we see a lot of buyers coming in" or "we expect the market to open higher". And market participants adjusted their orders based on that information. *Effectively, this was an equilibrium process without trading.*

In screen-traded markets on the other side, participants route their orders to the execution strategies of brokers. These strategies do not discuss with each other on or around the trading floor without actually trading. And these execution strategies do not send all relevant information back to the investors (indirectly) using them. And this of course causes a *completely different market dynamic around the opening of market*.

And there's another important difference. In the old days you could instruct a broker, but that didn't mean that the broker would always blindly follow your instructions. If you told your broker to sell at 10, meaning 610, he would understand you well. And in case of doubt, he would have asked: "are you sure?" *Execution strategies, on the other hand, do precisely as instructed.*



In that sense, the change from floor trading to screen trading is comparable to the change from riding horses to riding in cars. If you directed your horse straight towards a tree, the animal would have resisted to bump into it. If you instruct your car to hit a tree, it will obey that order.

*In current markets we regularly witness cars bumping into trees. Almost always, the victims blame technology, while the real problem is horse riders driving cars.*

The relevance will be clear. Also, when extracting information from prices, the traces left behind by a typical horse rider should be treated differently than the traces left behind by a licensed car driver. This doesn't require artificial intelligence. This requires an understanding of the markets and their dynamics.

And this illustrates that changing markets require managers to adapt their investment strategies. As I said before, different managers make different choices. Which is healthy, I would say, for the market as a whole as well as for the individual investors. It offers them a real choice. Provided, of course, that the investment managers explain their choices well to their investors – you don't want someone suddenly starting to do something completely different without informing you. So if managers clearly explain their approach to their investors, then the investors can choose what they need and what they don't need.

Historically, Transtrend has kept a rather low profile. But realizing the growing need for investors to understand the differences between different managers, also between different CTAs, we are changing in this respect too. As it happens, yesterday our new website went live. We aim to even better explain what we are doing and why we are making the choices that we make. We cannot say anymore: "We are CTA", because that doesn't tell you much. It's like saying "We are an animal." What does that mean: a dog or a fish? The 'animals' in our space are becoming more and more different from each other, so we say 'Moo!' every now and then to make it clear who we are.

#### Matthias Knab

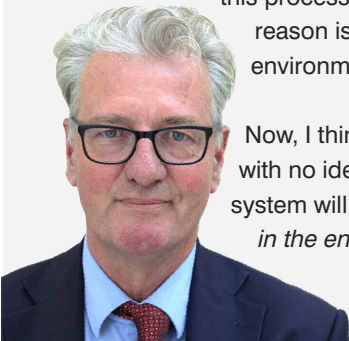
This is a very good point and reminds me on a critique I read on the internet directed at most regulated investment managers, where often the only information you can find is something like "We are an [insert agency name] registered investment advisor that seeks to generate attractive risk-adjusted returns, bla bla", but no real information on process, value add and differences to your peers. Having such a generic website was compared to a car manufacturer who just puts "we make cars that have an engine and four wheels" on their website.

We mentioned **artificial intelligence**, and interestingly just today Barclay Hedge published the results of a survey among their managers saying that 50% of the polled managers are indifferent to machine learning and artificial intelligence. At the same day, there was an article on Man AHL in the press that said the firm is now applying AI in four funds. The article also said that by 2015 AI was contributing roughly half the profits in the \$5.1bn AHL Dimension Programme, even though AI had control over only a small proportion of overall assets.

Are there any other views, comments or questions regarding artificial intelligence?

**Jos van Trier:** One of the things that you have to understand is that *there needs to be some physical, mathematical or some behavioral pattern behind a system in order for artificial intelligence to work.*

For example, machine learning works very well in the production of antibiotics in the pharmaceutical industry. These medicines are often produced organically through batch fermentation, which is a process that is very hard to control from a process control perspective. That is, you are dealing with complex system dynamics, where living bacteria respond to feed materials, oxygen inflow, temperature, pressure, etc. It is hard to create a single rule-based or mathematical control model for this process, but it turns out that a neural-network-based machine learning model works quite well. The reason is that in the end the whole system is driven by consistent behavioral dynamics in a well-contained environment under well-controlled physical and chemical circumstances.



Now, I think the big challenge we see in the application of AI to the financial markets is that people apply it with no idea or no concept about this requirement. Of course, you can apply AI to a lot of data, and the system will learn. *But if the system learns from something that is not a physical or behavioral phenomenon, in the end you may end up with garbage in, garbage out.*

**Harold de Boer:** I agree – there are a number of risks involved. Physics works great because *the physical world doesn't change in the sense that a falling apple doesn't change when more people see it falling.*

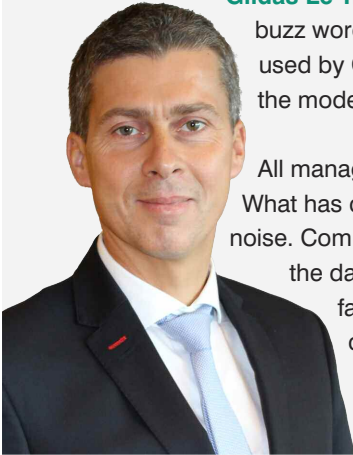
The thing is, people in finance somehow don't like to accept that Finance and Economics are behavioral sciences. Markets are dependent on the behavior of people and one thing people do is change their behavior, which is different from the apple that keeps falling with the same acceleration as in Newton's time. These apples didn't even communicate with each other! People changing their behavior can fundamentally change markets, as I have mentioned before. We as humans can see, study and understand this change.

If you use artificial intelligence, you have to make sure that you're using a technique that is able to recognize such a change. But most of the techniques are not very good at this. *If they are able to recognize this very quickly, then they tend not to be stable. And if they are very stable, they don't recognize it. It is always one or the other.* So, if you use such a process, you have to be aware that it's either good in not changing, or very good in changing.

We know that when we are investing, we can lose money now and then. That's part of investing. But at the very least, I want to understand why we are losing it; that the choices we made are based on something that we understand. So that we understand the risks involved.

*I would never want to be responsible for a black box.* Some people may call our trading programs black boxes, but that's only because they do not understand what these programs are doing. Our programs are only black boxes if we ourselves do not understand what we are doing. Again, I would not want to be responsible for a black box.





**Gildas Le Treut:** With the number of managers that are now talking about AI, I think it has become a bit of a buzz word and part of some of the most recent marketing pushes in the industry. AI is not new, it has been used by CTAs and quants for decades. What has certainly been changing is the increasing use of data in the models. They need to use data, but how much data do you need? What is the quality of the data?

All managers get more and more data feeds now, and they need to use computers to treat these flows. What has changed is the ever growing investment in computers, algos to treat and filter good data from noise. Computers are good at treating data and the human factor is good in analyzing the anomalies within the data. So in my view, managers have been investing a lot in AI to treat the data, but still the human factor is key. Yes, we do talk a lot more about AI today, but that doesn't necessarily change the characteristics of asset management and trading.

**Matthias Knab**

Let's continue looking at innovation and new products. Rob, you were in the news lately about your ICO (initial coin offering), do you like to tell us more about that?

**Rob Van Kuijk:** You are right, I've been in the news and was surprised to see interviews that I never gave. The world sometimes goes faster than you can even blink your eyes.

It all started when somebody came to me and said, "I want to set up and sell a cryptocurrency and would like to invest the proceeds in a private equity fund, can I do it with you?" I said, "Yes, of course." And next of course he needed to select a country or legislation to set this up. His Dutch lawyers thought it would be best to do it in Singapore. But then, as we speak, all governments and all financial authorities are looking at this space and many really don't know yet what to do with it.

China has forbidden it completely, and I presume not so much because they are against an ICO or against cryptocurrency as such, but more because they are afraid of money leaving the country. But those are the wrong motives.

So let's look somewhere else now, for example to the U.S. There, under certain circumstances, a cryptocurrency is in some circumstances a financial instrument, and in other circumstances, it isn't. Those differences are too unclear to me and also unclear to lawyers. We initially thought the company in Singapore does an ICO, Initial Coin Offering, selling FundCoins, and in return, in their ledger they get back individual other cryptocurrencies such as Bitcoins, Lightcoins, Ethernets, et cetera. Then after that, go to an exchange like Kraken in Germany, exchange it into Euros, and then the Singaporean company could invest in our private equity fund. So far so simple.

But by now, we are at a point where you see that suddenly the Ministry of Justice is looking at your LinkedIn profile, and that you suddenly get questions from the Financial Markets Authority. And maybe you then you get second thoughts, such as: "Is this what I really want?", and of course you start talking to more lawyers: instead of one, you are now talking to several law firms to double check. And the question I asked most was the following. Normally if a company invests in a Dutch regulated fund, the KYC/AML procedure is with the company and the ultimate beneficiary owner. That's where it stops. And given the fact that the Dutch authorities state that



cryptocurrency is not a financial instrument, the process is basically the same as if the company in Singapore would be selling washing machines or cars or whatever. I don't need to know who's buying the car, and similarly, I thus also don't need to know who's buying the cryptocurrency. That was my initial point of view and thinking, which was also backed by compliance and the administrator who is the executor of the KYC/AML procedure.

Now, after I got all these interests of the authorities, I thought to dig a bit deeper. One of the law firms came to me and said, "The thing is, *you are right from legal point of view, but the Financial Markets Authority and also Ministry of Justice think that this could be a way in which criminal money could get into a regulated Dutch fund.*"

If that would happen, I could be cooperating with money laundering and that is a criminal offense. So, I informed the involved company in Singapore and also the Dutch Financial Markets Authority that I want to get all things straight, which means having KYC/AML at the door.

I want to know from every person who buys a FundCoin a KYC/ AML. In the meantime a number of service providers are springing up who are offering this service automated, so there is a helpful movement there. But again, this was the one thing that made me put my foot on the brake.

We also changed some things around the associated private equity fund. Our initial plan was to invest 30% in the blockchain industry another 30% in regular private equity, especially new technology, and 40% in yielding strategies like direct lending in order to earn some cash if you want to put some cash back into the Singaporean company in order to buy back coins from the market.

What we discovered speaking to potential crypto investors, was that they all love the blockchain industry. People investing in cryptocurrencies also want to invest in the blockchain industry, they believe that's the future, and they are not so much interested in regular private equity. *They just want blockchain industry.*

So, the approach needs to be adapted. Important for me is to set this up on a best in class standard. But what we urgently need is more regulation. The regulators need to step up and come up with regulation in this field, as this is absolutely necessary to give guidance to both investors and fund managers. We as a party who wants to be innovative and grow with investing time and money in the new industries need to know what the authorities want from us. If you are acting in the blind, like Blockchain Capital in the U.S., who also started this and now they have the SEC behind them, you can easily make legal mistakes with hindsight, only by regulation created afterwards.

#### Matthias Knab

Correct, on July 25, 2017, the SEC issued a Report of Investigation under Section 21(a) of the Securities Exchange Act of 1934 describing an SEC investigation of The DAO, a virtual organization, and its use of distributed ledger or blockchain technology to facilitate the offer and sale of DAO Tokens to raise capital.

The Commission applied existing U.S. federal securities laws to this new paradigm, determining that DAO Tokens were securities. The Commission stressed that those who offer and sell securities in the U.S. are required to comply with federal securities laws, regardless of whether those securities are purchased with virtual currencies or distributed with blockchain technology.



**Rob van Kuijk:** So none of us wants to have problems with the authorities, we want to comply, but there needs to be more global and uniform regulation for this in order for us to know how we need to act.

I think the future very soon will be that there will be a whole cryptocurrency line. In Dubai, you can already buy houses with Bitcoins. I think in the near future, you will be able to raise capital in cryptocurrency, invest in cryptocurrency funds and in cryptocurrency companies. I think this will be a near future.

**Matthias Knab**

You mentioned Dubai, just last week there was an announcement about a coin that will be linked to “physical and digital” (credit/debit) cards people can then also use to pay government taxes, utility bills and fines across GCC region, Asian and European countries as well.

Those two issues were always cited among some of the big criticisms against cryptos: that you cannot really buy stuff with them, and that you can't use it to pay taxes, which globally is one of the biggest uses of fiat money. But each day, this nascent industry is progressing and creating a new reality.

**Gildas Le Treut**

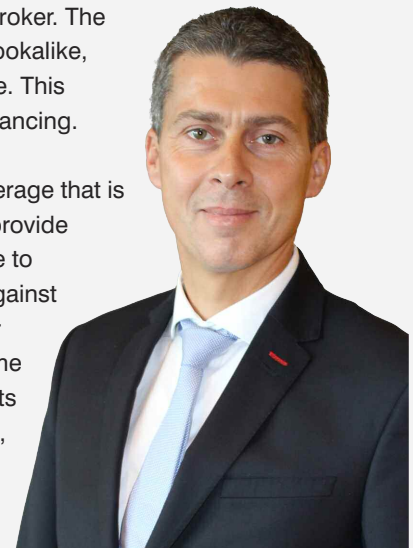
Our clients come up with a lot of new requests including cryptocurrency. We aim at supporting our clients in their strategy and in what they need to be competitive and generate performance. We are currently investing heavily on ETF, FX and Synthetic.

**Pieter de Vries Robbé**

Would you offer a Bitcoin currency as well?

**Gildas Le Treut:** I will come back on bitcoin in a second. We are a very specialized Prime Broker. The type of clients we have are very much systematic, short term trading, market making, HFT lookalike, relative value arbitrage. They are price sensitive and so we need to be extremely competitive. This means they are looking for global operational efficiency, low prices and efficiency in their financing.

We are working very hard on this to ensure we keep on expanding market and product coverage that is necessary to fully cover their trading and clearing needs, be able to offset their assets and provide leverage. Some of our clients are very active on the ETF trading and also arbitrage. We have to continuously enhance the operational processes of ETFs, as it involves exchanging ETFs against the underlying. That's a lot of effort. We are working very much on FX as well enhancing our capacity as a fully fledged FX Prime Broker. We feel that in the current dislocation of the prime brokerage space, it's important to be supporting our client with a complete range of products and not act in siloes. This is the beauty of being a tier one Prime Broker in terms of volumes, market share and balance sheet, but still be nimble and integrated to provide a complete service offering.





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And obviously, we also have a lot of demands from clients willing to trade Bitcoins or pushing us to clear futures in Bitcoin because some exchanges are thinking of launching a futures contract. It is currently a product that is about to be launched by CBOE, or at least they are claiming that they will. The CME also have some initiatives around cryptocurrency, so everyone is talking about it. To be honest, no one really knows what's the endgame in all of this, but these things will surely happen.

So at this time, we are carefully looking at what is happening and certainly don't want to be the first and only ones jumping into this space. No Prime Broker would want to be the only one clearing these products and end-up being de facto a kind of central counterparty...! There is too much un-clarity at this stage on the legal aspect of the coins and not enough regulation around it. This is too early stage for us to clear cryptocurrency. But we clear so many of other futures on commodities, so why not another commodity?

**Arent Thijsen:** I think the blockchain technology is very powerful and it will influence our future in a lot of ways. I read a Harvard paper on applying the blockchain technology for the whole transportation chain, and I believe that is very powerful. However, when I look at Bitcoin, I totally don't understand why there is any value in a single Bitcoin. It's an entry in a ledger, and for example you buy it at 100, I buy at 200 and sell it for 300 to you. It's a promise or it's nothing, basically. So it's stupid to invest it in, however, the trend is your friend in the Bitcoin. So you should be investors only to make money because in a normal currency, there is always a company who was outperforming the currency. This is why you invest your euros or dollars in a company. But in the Bitcoin world, there is no single company in the world that is outperforming Bitcoin. So you have to keep your money in the Bitcoin. I am sorry, but I don't get the point and finally it has to go wrong in a horrible way. It will end in tears.



And the best part is if you look at some of the discussions about the value of Bitcoin that you can see in different forums or websites on the internet. So if there's a critical article about the value of Bitcoins and then you look at the reactions coming up, you'll be teletransported back to the year 2000. *"It is new. It's revolutionary. It will change the rules. It is ... !"* It is a promise and we are trading a promise.

As far as I am concerned, I am waiting for Bitcoin or a cryptocurrency with some real value because it's linked to some intrinsic things, maybe gold or maybe a basket of equities. Then it's starting to be very interesting, because then it's basically a container to move money around the world without control of authorities.

**Harold de Boer**

I like the question: Bitcoin, is it real? And I think that Bitcoin is real, that is, as real as a currency can get real. Just as real as the Dutch guilder was real, or the Dutch florin, or the euro was real.

**Rob van Kuijk**

The Euro still is.

**Harold de Boer**

And the Zimbabwean dollar is real. The Icelandic króna is real. Gold is real. They all have one thing in common: their value is in the eye of the beholder.

**Rob van Kuijk**

Absolutely.

**Harold de Boer**

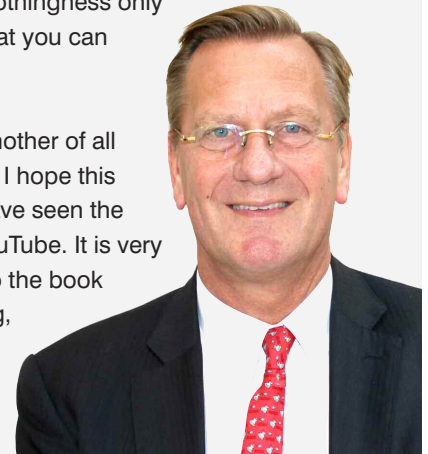
And that goes for all currencies. Bitcoin can be traded, because it is real. We prefer trading the Brazilian real, however. But that's just a personal choice.

**Gildas LeTreut**

There is no uniform definition of a cryptocurrency, so the question "What is it?" is very important and relevant. Some of the coins are a pure cryptocurrency, some are behaving like more a share of the capital or the future value of the company that creates the code, others will be backed by physical gold.... So correct, there is no similar reality behind every coin. Every coin is different, and cryptocurrency needs a clear framework.

**Rob van Kuijk:** I fully agree again with Harold. Cryptocurrency is nothing but a line in your ledger, nothing else. It's basically really nothing, so you are trading nothing for nothingness if you trade one currency for another currency, but it gets interesting when you can buy with nothing something material. That's where it gets interesting. This nothingness only has the value that we assign it to when we trade it. If I give you a €50 note then you trust that you can change this into something else, and that that will have a value of €50.

Now, if we just think ahead of potential trouble ahead for the financial markets, I think the mother of all crises will be the monetary crisis where everybody goes to the bank and want their money. I hope this will not happen, because then the whole monetary system collapses. I don't know if you have seen the VPRO documentary "**The Day the Dollar Falls**", it's interesting and you can watch it on YouTube. It is very possible that we will see **a total collapse of a currency** in our lifetime. And let's go back to the book "This time is different" from Reinhart and Rogoff. They write a history of countries defaulting, and crisis coming back over and over again.



**Arent Thijsen**

I wonder, isn't the currency collapse not already happening? Is that the reason why we have these high price and valuation levels in everything?



**Rob van Kuijk:** I think you have a fair point. As I said, I hope this will not happen, but if you see the amount of money that's being pumped in the markets – for example if you see how much Japan is pumping in Yens and look at their debt to GDP, this level of government debt in Japan and elsewhere might be unsolvable. *So the trust we have in a fiat currency is more or less the same as trusting a cryptocurrency having a certain value.* And of course, central banks are continuing with printing money. I believe that the future could very well – note that I am not saying it will, but could be a cryptocurrency that is backed by real assets. Such a system could very well have a bright future in my opinion.

**Pieter de Vries Robbe:** I think you hit the nail on the head. With fiat currencies, the keyword is trust. And that is exactly what the block chain replaces. As we know, trust is often belied. This has been illustrated by the government's monopoly on debasement. We know that this already happened in the old times when the gold content of coins was reduced to pay for the emperor's new palace, where nowadays, it is just a printing press.

So I am sure there is a role for cryptocurrencies, however, that's only part of the puzzle. If you go back to the late 90s, we were assured that the internet was this great thing that would deliver unimaginable things. The big question always is, how do you capitalize on it? What will be the winners? Are the winners already around? We don't know. How many more ICOs will there be?

Therefore, even if you're sure that the cryptocurrency is something that's here to stay, are you just buying a lottery ticket?



**Arent Thijsen:** I want to come back on Rob's statements about the debt level of government being uncontrollable or unsolvable. I think differently about this. Because the monetary bubble is based on money printing, I think it is actually very easy to solve the problem because what is happening in Japan, in Europe and the US is that the government is lending money from the government because the central bank is a form of government.

So you lend from the pocket on one side to the pocket on the other side. This means you **can cross the balance on both sides**, and you're done and nobody is hurt. That's the only thing that needs to happen and people are thinking about this approach already. I believe Obama stated that they were talking about solving the whole problem with **one big one trillion U.S. dollar coin** to the Federal Reserve and tell them, "Here's our payment, and good bye."

This is possible because it's just government that's involved – and money is a human invention, so we can all find comfort that humans can then also solve every problem around it, in contrast to catastrophes like hurricanes and these things. Those events are a real problem because we cannot control or change it, or at best a minimal part of it. But money is never the problem because we can change it. We can skip a currency or can replace it with something else, cryptocurrency or whatever.



**Jos van Trier:** Indeed, to come back to the topic of innovation and new products, we are innovating on the technology side in several areas. We discussed today that systematic strategies always need to be adjusted, and what Harold said about execution is also very important at our firm. We find that having smart algorithms to execute is extremely important, especially in a low volatility climate where volatility may spike but it may not be a true behavioral phenomenon. So we do a lot of work there. We also look at value at risk, which is one of the balancing mechanisms we use for the different strategies. But as everybody has agreed on, it's not a good measure because it only looks backwards so what we do is combining it with real-time trading statistics and portfolio optimization, which gives us a much better idea about the current markets and volatility.

As for new products, we find that there is an interest from family offices in more dedicated solutions than they can get from traditional banks, asset managers or hedge funds.



The thing is, for a lot of investors one hedge fund is like the other, they have become almost a commodity product to everybody. Investors, also institutional investors, go through a DDQ process covering all kinds of questions, and then go ahead with what seems like buying funds from the shelf. But there is also a new approach coming up, particularly from the international family office space, where larger family offices are not selecting you as part of a standard DD process to invest into a standard product, but they actually want to **integrate certain strategies or apply certain expertise and systematics directly to their own portfolio management.**

This is of course a much more customer-centric and customer-driven approach. On the one hand, this approach requires more dedication and effort on our side to come up with a custom solution. On the other hand, *to implement an investment this way cuts out the questions and costs around the fund structure that you need to offer, the type of regulations you then fall under, the fund materials you then need to develop, the DD process you then need to support, etc.*

So we see such a new form of cooperation and integration as an interesting direction and preference from the investor side, particularly from larger family offices. This is more than the traditional multi-family office fund services or managed account approach; *the family office is seeking dedicated access to investment strategies or technologies that are normally not available to them, as if they have their own proprietary trading shop.* For us, it's an interesting opportunity because it allows us to focus on what we are good at, trading systems, efficient market access, systematic strategies, etc.

**Harold de Boer**

I have a question for Arent. What do you believe is the role of alternative investments in the portfolios of private and institutional investors?

**Arent Thijsen**

For us, alternative investments have a very important role at the moment in order to be diversified and to survive when the next bear market starts. As mentioned before, we see risks there from the bond market where the next bear market could start, or triggered via escalations on the geopolitical side. **Depending on the risk profile, we are adding between 15 to 25% of alternative investments to our portfolios.**

**Pieter de Vries Robbe**

Arent, this is encouraging to hear from you, particularly as other Dutch investors seem to have withdrawn from alternative investments. What are your views on that?

**Arent Thijsen**

I mean, you are totally right, private investors in general dislike alternatives because first, they often don't understand them, and then secondly, being in an equity and bull market for such a long time has given them rich rewards, so there is the perception it's absolutely rubbish to have any alternatives in your portfolio, until the moment comes, and then it is too late.

## Matthias Knab

Right, private investors are one side, and what also concerns some observers is a certain herd behavior in the institutional market. For course, the pressure that institutional investors are under just to stick to the regulations is immense, but there is also some disappointment in the industry on how the Dutch investment community has drifted from innovative, entrepreneurial risk taking to a more defensive, plain vanilla, type of investors.

But this is not only a Dutch problem. Let me tell you something I heard from an insider when I was in Stockholm for our latest Nordic Roundtable about a pension fund that admitted that they haven't reviewed their portfolio in 18 months due to the fact that they have been completely busy understanding regulation and how it hits them.

So instead of actually doing what they are supposed to do, managing money and providing good pensions for their pensioners, that pension fund has been completely absorbed for 1.5 years with studying and applying this onslaught of new regulations, which could nowhere be the intent of the regulators.

**Harold de Boer:** This is certainly sad. Coming back to the question about the role of alternative investments, I actually think that for investors in general, **the question is not really “What is the role of alternative investments?”. The question should be: “What is the role of investments in private and institutional portfolios?”.**



And for me, this is exactly the same question as: **“What is the role of investors in our society?”.**

*To bear market price risk, to bring liquidity to the market, to contribute to price discovery.*

*That's the role investors traditionally got paid for.*

If ‘traditional investments’ no longer fulfill that role, alternative investments are required to fill the vacancy created.

*However, when the so-called ‘traditional investments’ no longer fulfill their traditional role, why should they still be called traditional investments? Tracking an index for sure has never been a traditional role of investors. Neither has ‘outperforming a benchmark’.*

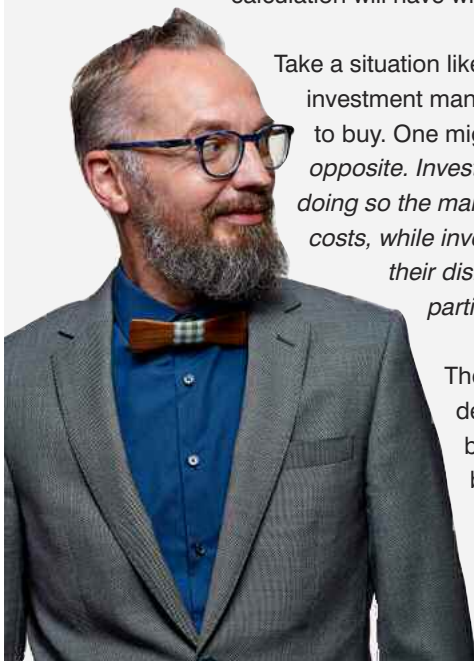
**Arent Thijsen:** You are right, but we see the government, the legislator and the regulator enforcing exactly this behaviour. If you speak to pension managers, they will actually tell you, *“Why should I be putting up with all the hassle of taking a position in an alternative fund which give me trouble from a regulatory perspective and are high fee?”*

I want to go home at five o'clock and to relax, so investing passively is much easier than being questioned by the Dutch Central Bank about why I did take this in my portfolio.” And then the public is also looking at the fee structures as are institutional investors, so everyone is avoiding high fees.

So, summing up, there is this pressure from the outside, people avoid high fees and also many simply don't understand alternatives. Quite a few people are also thinking that a lot of hedge funds and private equity are unethical. They are locusts and predators. What we as an industry can do is to continue focusing on education – with forums and publications such as this, and more. And also on the fee side, maybe we have to do our part. If we know that people are avoiding high fee structures, are there ways to offer our products without those high fees? That is a question we should ask ourselves. Can we follow the mainstream here and lower our fees and even challenge ETFs?



**Harold de Boer:** This whole fixation on costs has gone way too far, in my opinion. To give an example: in MiFID II, which becomes effective in January 2018, investment managers are obligated to report on transaction costs. These costs include implementation costs, in principle to be calculated in a manner that has been precisely defined in another piece of EU regulation (PRIIPs). Such transparency is in itself a good idea, one could argue. Until you realize what effect this specific calculation will have when markets are disrupted.



Take a situation like the **flash crash** in May 2010, with stocks trading way below their fair value. Some investment managers decided to sell in such an already heavily undervalued market, others decided to buy. One might hope that regulation stimulates the latter. *But this regulation does exactly the opposite. Investment managers who decide to buy in such a heavily undervalued market, and by doing so the market moves back up towards its fair value, are destined to report high transaction costs, while investment managers who decide to sell in this scenario, and who are only lucky to find their disruptive market impact outweighed by the corrective buying of other market participants, can proudly present super low transaction costs.*

The more a market is sold down below its fair value, the larger the chance that a decision to sell will be rewarded with super low (even negative) transaction costs. It will be clear that the investment results of the managers buying in this scenario will be better than those of the managers selling. But the focus on costs rewards the disruptive market participant instead of the investment manager fulfilling his traditional role.

**Pieter de Vries Robbe:** There are good regulations, let us be clear about that.

It may be an excellent time for anyone who is interested in active strategies to engage and start discussions with an asset manager. The competition is very strong, and I think the upside of working with an active manager should be measured not only in terms of the P&L that you are able to derive from your portfolio, but also in the way you'll be able to work with your active manager.

The closer you are to your manager, the better you understand what they are doing, the better you are able to explain this to your stakeholders. I see this also as a field where the asset managers need to adapt. In the past the decades, life was relatively easy, but now life is difficult and it is up to active managers to rebuild the trust by engaging with clients and helping them understand what our philosophy is, and what they get if they invest. I think that is the challenge that any asset manager nowadays should be willing to take.





**Arent Thijsen:** I totally agree with you, and this concerns wealth managers like us as well. *I am looking sometimes with full envy to colleagues or just passive managers who can ask 1% fee or 0.5% fee, whatever fee they ask, for doing essentially nothing.*

No research, no thinking, no analysis, just buying a couple of index fund, ETFs and that's my portfolio. You'd always deliver your promise every day, a little bit less than the index. And you'll always have satisfied customers - what a luxury...

**Pieter de Vries Robbe**

How do you think your clients will feel if the market goes down 20%?

**Arent Thijsen**

But we'll all together blame it on the markets!

**Harold de Boer**

The market came down 45%, but we lost only 44%. Look, we made 1% for you!

[Laughter]

**Jos van Trier:** I agree that you can get very jealous of passive investors and the fees they are making. We do active trading, and as we all know it takes an **immense investment** to be able to come up and support returns in this way.

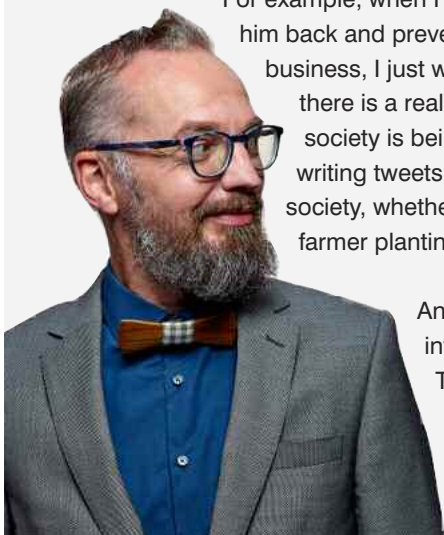
Talking about fees, I don't think that transparency on fees is actually happening as it should. You see this particularly for ETF products where fees are often charged for products that have little or no extra trading or investment costs compared to a straight investment in the underlyings.

From our perspective, *justifying investments based on cost is always the wrong discussion*. Investors should first and foremost be interested in your strategies, purely from a strategy perspective.

As said, there is a positive trend we see from family offices that are exactly doing that, but I agree that the whole pressure on low cost and passive investing is not helping at all the firms that are investing a lot in being innovative and involved with active trading, and that this is an unfortunate development.



**Harold de Boer:** Another thing that always surprises me is that in the Netherlands, **many people somehow associate passive investing with responsible investing.** That's very strange, nowhere else in our society is being passive seen as responsible behavior.



For example, when I walk to the office and I see a child trying to cross the street in front of a car, I would pull him back and prevent an accident. If I was a passive walker, I would say: "No, no, no, this is none of my business, I just walk by." In our daily lives, there is even legislation that forces us to be active, for example there is a real duty and obligation to offer assistance after accidents, etcetera. Again, nowhere in our society is being passive seen as responsible. Passive is like: "I'm on my couch, drinking my beer and writing tweets about everything being bad." That's passive. Active, on the other hand, is contributing to society, whether on a football field, whether you're walking around in the city, or whether you are a farmer planting and harvesting food for people to eat – it requires activity.

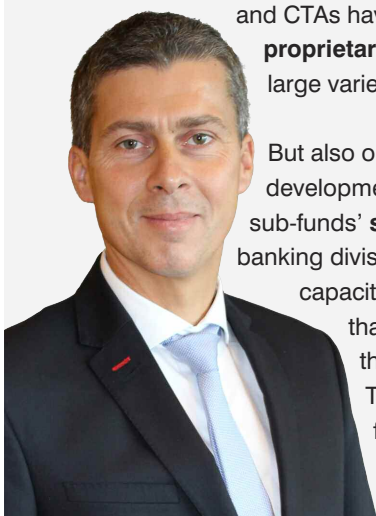
And with investing it is not even true that a passive approach has no impact. Passive investors also buy and sell in markets. And this market activity also has market impact. The only difference is that passive investors act without being conscious of their activity and without feeling responsible for its impact and its consequences. Being passive should and can never be seen as being responsible.

**Pieter de Vries Robbe:** I would go further and argue that **being passive is basically surrendering to fear.**

If you're not willing to take personal risk, if you don't have courage to stand up for what you believe in, you end up investing passively. And unfortunately, courage nowadays is a scarce good. As a result, we see a very pale landscape with a dominant herd mentality. This has eroded the investment spirit that the Dutch institutional market once had. I think the investment industry is partly to blame for what happened in the financial crisis – but at the same time, we are in the process of killing an industry that was successful in the Netherlands for hundreds of years. Daily, I hope to find signals of the pendulum swinging back. Unfortunately, I haven't seen clear positive signs.



**Gildas Le Treut:** I tend to agree that active investment managers with uncorrelated strategies such as hedge funds and CTAs have a hard time at the moment in the Netherlands. However there is also the sector of the **proprietary trading industry**, which is very active, very innovative and trading significant volumes with a large variety of trading strategies and profiles.



But also on the active managers' side, we as a prime broker servicing this segment see some positive developments. After two years of consolidation we now see more spinoffs from large asset managers, sub-funds' **spinoffs** with very specialized trading styles. We also see banks spinning out their investment banking division or the market making division into a hedge fund, investable or not depending on overall capacity of the strategies. But at least there are movements. Also mid-size proprietary trading firms, that do not want or cannot be MiFID compliant, find it easier to become an AIFM. And again, those new firms and set ups tend to be very specialized and having competitive advantages. They often are nimble, cost effective and generate better returns than large asset management firms.

**Arent Thijsen:** That is certainly positive news, but of course we still see that newcomers and start ups are struggling with the regulatory environment if they want to set up a regulated business. It is certainly not impossible, but the barriers to entry are high. For example, we are working with a fund platform on onboarding five new funds total assets of EUR 50 or 60 million. These funds already exist and are operational, they are just moving from one platform to another regulated platform. But don't ask me why, we are already working 12 months on this, with very expensive lawyers to get the job done.

This to us certainly feels like just an obstruction from governments and regulators.

My other thought here is that a lot of us in the investment industry are solution developers and product thinkers starting out from where we are and what we can offer as value add. We are not marketing thinkers in the sense that we are not researching or having a procedure to find out what does the investor really want from me? At the same time, there have been some fundamental changes in consumer behaviour generally and globally. Today, the consumer wants real products, full disclosure and transparency, to the extent that when he's going to the butcher to buy meat, he likes to know where his beef really comes from, for example. You could say that this is also happening because we live in a period of lies, so nobody believes anything anymore.

When a client of a bank, of a wealth manager, of a multi family office, takes a look at his portfolio, most of them would see a diarrhea of fund names, the majority of them having obscure or inunderstandable names. In most cases, he will have absolutely no clue in what he is invested, and why? And unfortunately, in the majority of cases the person on the other side of the table can't explain it either because this portfolio is the result of a perfectly centralized investment policy from which the relationship management and is totally separated. So nobody knows anything anymore. The salesman don't know what he is selling anymore, *"but it is good. Trust me."*

When we built our own system, we said that we had to do it differently. We started it first with a few large customers where one portfolio may have around 100 individual equities, and the client sees exactly in which companies he is invested. We skipped all benchmarking. We only invest in companies we believe are investable and are good trades. **We manage these portfolios very actively**, so three times in 2016 we sold the whole portfolio and bought back the stocks later. The return last year was 18%, and I am not saying this to brag, because in investing you can also lose any time, but the most important thing here is that client feedback has been very positive and they say that this is exactly what they want, a full and transparent overview on everything they are invested in. They tell me, "I don't care so much if you are an outperformer or underperformer, but I want to know my portfolio, that I have for example invested in Ferrari or a Phillips or whatever company it is. So I know where it goes wrong and I know when it goes right. I see the successes and when I'm in the bar I can tell that my investment manager bought this stock for me, and it's been doing really well", or whatever. The point is that there is enthusiasm again and a great dialogue between us and our clients, and it is so motivating for me and my team to see happy customers.

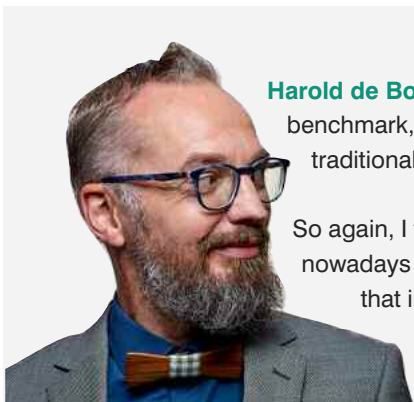


**Harold de Boer**

But Arent, to come back to my earlier point, would you consider this to be alternative investments or would you call this a traditional investment?

**Arent Thijsen**

This is a traditional investment, it's back to the '90s.



**Harold de Boer:** I completely agree. But does the Dutch regulator agree this is traditional? You have no benchmark, Mister Thijsen! But this is real. This is professional investing, fulfilling the role that investors traditionally fulfilled.

So again, I think it is important to point out that what you are doing is real investing. Looking at what is nowadays called 'traditional investing', I think I made my point earlier that this is a real misnomer; and that in ten years or so we will laugh about this period and people will have found their way back to the real traditional investing, free from indices and benchmarks.

**Arent Thijsen**

What comes around goes around. We started with private equity, then investment funds, then ETFs and the next step is again back to individual equities.

**Gildas Le Treut:** Arent, just a brief remark to your point about the challenges to launch a fund and the barriers to entry. This is certainly right, and at the same time we have also seen a surge of all kind of regulatory hosting platforms, investment manager (AIFM) platforms that really helped some managers to launch.

For a firm to be fully regulated and comply with all the regulatory and operational requirements on their own is expensive and very complex, so managers and some of our clients opted to run on those **platforms** and secure their regulatory approval. Using platforms can substantially reduce cost and overhead, which is very important when you're starting up with a lower asset base.

In this environment, and due to the pressure on management fees in the current environment, managers take a look at all their fees, also of course from their prime broker, and try to reduce them while running a best in class operation. Managers are often more concerned about raising capital into the fund than looking at how their service provider can offer fees that will help performance. For us, this is a good momentum to differentiate from other Prime Brokers and demonstrate that we can make our clients more competitive. Our edge is operational efficiency, and in periods where everything counts in order to survive and generate performance, managers appreciate what marginal gains can bring to their funds.





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Opalesque videos are regularly featured among the best in any top 10 or top 20 hedge fund / investor video ranking, such as this one which lists 4 Opalesque videos out of a total recommended of 19 videos.

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- Allow for true reverse solicitation

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- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

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- View count: Over 1.3 million views (hundreds of thousands of people)
- Thousands of investors will view your presentations
- Longterm effect: Views do not drop significantly over time
- Without investing a single additional minute of your time – time required to record a video is approximately 90 minutes.

## Costs

For a 10 minute video the all-inclusive package price is US\$4000 which includes: travel (Europe and NY tristate), full production at your office, multiple edits (cuts), provision of the final video file, and a global, multi channel distribution package. A 15 minute video is \$5000, so \$1000 will be billed for each additional 5 minute segment above 10 minutes. The client determines the final length of the video.

## Links

Opalesque.TV video which got 104 views over 2016 Christmas:

<http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/>

Opalesque.TV videos sorted by number of views:

<http://www.opalesque.tv/most-viewed-hedge-fund-videos/>

Opalesque.TV videos sorted by number of social media shares:

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