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Opalesque Roundtable Series '18

GERMANY

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Editor's Note

The last years were clearly dominated by illiquid strategies in Germany and elsewhere. Private equity, infrastructure, private debt saw unprecedented demand. However, 2018 has also become the "Year of Hedge Funds", says Prime Capital, a $10bn award winning alternative investment manager active in hedge funds, infrastructure equity and private debt.

Looking by investor type, the appetite among institutional investors is clearly divided. Because of regulatory restrictions, insurance companies in Germany are predominantly not investing in hedge funds while pensions, private banks and family offices are increasing their allocation.

But, among the many investors moving slowly and now for the first time into alternative investments, there is still some hesitation regarding hedge funds. The main challenge with hedge funds is still education. Equity long/short is quite easy to understand for most people, but when it comes to more niche and complex hedge fund strategies, then people start to get a little bit uncomfortable because they don't really understand them. ***Often these are the interesting strategies.***

Why liquidity is the wrong starting point in alternative investments

Some investors tend to have a strong preference towards liquidity in the hedge fund space – maybe because of a bad experience in 2008 – even if they don't need liquidity. However, liquidity is the wrong starting point; rather, the manager and the investment strategy have to be examined first, because those are the most important aspects to agree on or have a conviction in, before then looking at the appropriate vehicles and liquidity terms.

While there may be real regulatory constraints for some, other investors could be "psychologically constrained" or something else. Investors who start a discussion with, "Listen, I need weekly liquidity, or I need monthly liquidity..." - that may be driving them in the wrong direction. Liquidity or less liquidity doesn't make an investment better or worse, it's more the manager and the investment process where the discussion should be focused on.

The Opalesque 2018 Germany Roundtable, sponsored by Eurex, took place in Frankfurt with:

1. Dr. Thomas Maier, Feri
2. Paul Beck, Eurex
3. David Finkenstädt, Postera Capital
4. Andreas Kalusche, Prime Capital
5. Valentin Bohlaender, HQ Trust
6. Frank Dornseifer, BAI

The group also discussed:

- **Regulation gone too far** (page 7, 10). Legislating alternative investments: ideological opposition or lack of knowledge? (page 10). What's wrong with insurance regulation (page 6-10, 13). How investors loaded up additional risks with QE (page 8-9). UCITS vs. Offshore (page 13). **Latest EU initiative could stop reverse solicitation** (page 23)

- Is AI really working in asset management? (page 7, 17)

- **Can you sell funds in Scandinavia if you're not ESG? Why signing UN PRI isn't enough. Misuse in ESG. Going beyond negative screening** (Page 7, 19-22)

- 120 start ups: The blockchain ecosystem in Germany (page 10-11). **Crypto and digital assets' use cases: The "alternative money" (20%) vs. application-focused cryptoassets (80%)** (page 10-11, 15-18)

- Eurex Clearing: A credible alternative to LCH (page 11). Institutional interest for VSTOXX futures and options (page 13). Benefits of Portfolio Risk Margining (page 14)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT):

Paul Beck, Andreas Kalusche, Dr Thomas Maier, Valentin Bohlaender, David Finkenstädt, Frank Dornseifer

Introduction

Andreas Kalusche
Prime Capital

My name is Andreas Kalusche. I'm a Board Member at Prime Capital since four and half years where I am responsible amongst others for our investor client business, our press and communication work, and I also have a very close relationship to our investment teams. Our investors are German, European and global investors. Prime Capital is an alternative asset management company with more than 10 billion assets under management. Our headquarter is in Frankfurt.

We are active in three asset classes: hedge funds and absolute return – our largest business line, infrastructure and renewable energy equity, and private debt. We also serve as an outsourced asset manager performing all asset management functions for a particular group of insurance companies.

Frank Dornseifer
Bundesverband Alternative Investments

My name is Frank Dornseifer, I'm Managing Director of Bundesverband Alternative Investments (BAI) which is the German alternative investment lobby association. We pursue a cross-asset and cross-strategy approach, i.e., we cover both liquid and illiquid strategies within the alternative investment universe. Initially, the association was set up as a hedge fund association, but for various years we are also covering private markets strategies including infrastructure, private equity, private debt but also niche strategies like crypto assets investing.

Our members are more than 200 assets managers, banks, investment advisors, service providers, etc., who have a clear focus on institutional alternative investment business.

Valentin Bohländer
HQ Trust

Valentin Bohländer, I am a partner at HQ Trust. HQ Trust is one of the leading independent multifamily offices in Germany. We service today private and institutional clients and invest across all asset class from the liquid to the illiquid alternative investments.

We have a long history in alternative investments dating back to the 1980s when the Harald Quandt family started investing in private equity and in other alternative investments. Today we cover all relevant alternative asset classes from hedge funds, private debt, private equity, real estate, infrastructure and a bit of agriculture and timber.

Dr. Thomas Maier
FERI Group

My name is Thomas Maier. I work for FERI Trust, a company of the FERI Group. FERI is one of the largest German independent asset managers and consulting companies.

The FERI Group operates from its headquarters in Bad Homburg, with branch offices in Dusseldorf, Munich, Luxembourg, Vienna and Zurich and caters to a global client-base with a focus on Central Europe.

FERI has its own investment professionals for all asset classes (including alternative assets) with many years of experience and proven remarkable investment achievements over the last 30 years. We have three main business lines: investment research, investment management (institutional asset management and private wealth management) and investment consulting both for institutional and private clients/family offices. I am responsible for portfolio management and security/fund selection with a focus on relative value and factor-based strategies.
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David Finkenstädt
Postera Capital

My name is David Finkenstädt, I am a founding shareholder of Postera Capital, a boutique investment and advisory firm specialized on blockchain and cryptoasset investments.

Besides studying immune biology, I founded the first website builder (Beepworld) in the German speaking market in the early 2000s, which I grew to four million users, so I have been involved in digital businesses for a long time. In 2013 I started to get involved with cryptoassets, initially through mining, specifically high frequency token switching within mining. I then launched a platform for decentralized governance for a specific cryptoasset and invested in several projects via tokens in the same year.

In 2017, I co-founded Postera Capital together with four other partners. We advise professional investors on investments in blockchain projects and cryptoassets. Furthermore, we are the promoter of the first regulated fund for cryptoassets, Postera Fund - Crypto I. The Postera Fund invests directly in cryptoassets such as Bitcoin, Ether and Ripple. It is fully regulated pursuant to the EU AIFM directive. The fund is specifically designed to meet the needs of professional investors who are seeking exposure to cryptoassets. Lastly, at Postera we do our own research; currently, for example, we are working on machine learning models to forecast cryptoasset prices.

Paul Beck
Eurex

My name is Paul Beck, I work for Eurex, the derivatives exchange of the Deutsche Börse Group. I've been with the exchange for about 15 years. I also worked for Capstone, a volatility hedge fund. In my current role at Eurex, I look after large buy and sell-side clients in Continental Europe with a focus on equity & index derivatives.

Matthias Knab I have heard that Germany is finally waking up to alternative investments. Can you confirm this, what is your experience?

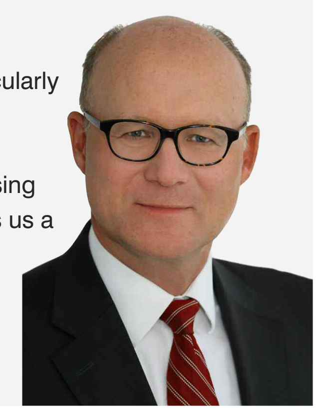
Andreas Kalusche: I mentioned that at Prime Capital we are active in hedge funds, infrastructure equity and private debt, and when we at our firm look back at 2018, we probably would **call 2018 the hedge fund year.**

However, the appetite among institutional investors is clearly divided. Insurance companies in Germany are predominantly not investing in hedge funds. Pension funds of different kinds in Germany and across Europe and family offices are investing in hedge funds, and have continued to grow their allocation. This includes investments in funds of funds, the more traditional way of approaching the hedge fund sector, and also via advisory mandates where we have some discretion and are also in close interaction with the investors.

We have also been successful this year in launching a second fund of funds, which today is not very common; this was a very pleasant development. Our first fund, the PCAM Blue Chip Ltd. Fund, was launched in October 2007 and is hard closed at this stage with $850m, simply because we have capacity constraints with certain managers. Over a couple of quarters we were weighing the pros and cons of setting up a new fund of funds. At the end of the day, we have decided to take an approach which is similar to but not the same as Blue Chip. Next to 75% Blue Chip managers we are adding 25% of managers who are nimbler and slightly more aggressive. Whilst we expect a higher return we also diversify a bit more by allocating smaller amounts to these managers. The overall approach is similar, **very little beta to equity market,** largely focusing on established managers and allocating across our three main strategies, **convergence, divergence and value.**

The investors in our new fund are a mix of existing investors and new investors, which is very pleasing. The fund has started with under $100m, while we expect it to grow pretty decently over the next months.

As a last point: We have also moved into the UCITS world three and half years ago and we continue to put a particular focus on wrapping unconstrained investment strategies into the UCITS framework. We are currently fund raising for a second single hedge fund strategy, which is a long-short equity strategy.



No doubt I wanted to add that we see certain challenges in 2018 on the liquid alternatives side, particularly with some very large players who are facing difficulties.

So summarizing my points briefly, we see little demand from insurance companies, good and increasing demand from pension funds and family offices, which I think is also due to our track record and gives us a bit of an advantage here, and then we also continue to grow the more liquid side of things, offering daily liquidity next to 90-day liquidity in our hedge fund business.

Dr. Thomas Maier: I can confirm the situation you have described regarding investor demand, it's the same for all of us; our business growth within the hedge fund department is based on similar roots. There is a demand for alternative investments – typically, our main clients are insurance companies, pension funds, private banks, and some other institutions, but as you said, there seems to be less demand from the insurance side.

On the other hand**,** pension funds and private banks are increasing their allocation to alternatives,obviously because of the current low interest rate environment that takes place already for a long period of time and, that does not seem to change soon, at least here in Europe.

One of the main drivers behind the reluctance of some investor types to invest into alternatives – I believe – is regulation per se. Insurance companies are harshly pressured by the different types of regulations, whether it's pure investment law, Solvency II or its VAG compliance. Their flexibility to invest into different types of alternatives has actually shrunk over the last years due to ever increasing regulation, which is a problem for that type of investors and therefore for end-investors like insurance clients or private bank clients.

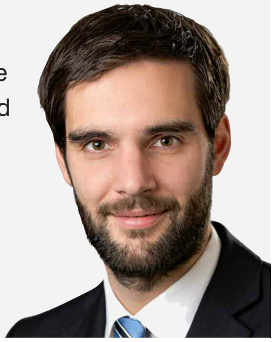
I believe it has become very important to explain to the public, including investors, politicians and potential end clients that regulation nowadays has already reached a level where its effects are far beyond any positive effects.

For example, the current regulation regarding eligible investments for certain types of investors will almost certainly lead to lower returns for end investors, in particular for the alternatives space, which I think has become almost prohibitively over-regulated. It also leads to less competition on the asset managers' side because obviously outsized regulation favors the larger managers being able to afford a large risk management and compliance teams. In addition, they are able to afford the installation of all the processes needed to fulfill regulation, irrespective of their actual value-add. These are just two examples of negative effects of over-regulation, and there are other negative consequences as well, all of which should be more discussed in public, I believe.

Looking now at developments on the investment side, the same trends are either happening or discussed in Germany as anywhere else, so the first buzzword that comes up here is **artificial intelligence** ("AI"). AI seems to be growing both on the investment side and at the scope of the broader industry, however, I deem this is relatively critical because currently AI is often used only used as a marketing statement. AI in its current form in the financial industry is probably not a really innovative market disruption, but represents more an ongoing development of certain technologies.

The other buzzword is "SRI" or **Socially Responsible Investments,** which, in my opinion, whether we like it or not, are certainly here to stay. I believe going forward will mostly depend on regulation in this field, starting with a definition of what SRI is. SRI, ESG etc. will continue to unfold and stay with us for decades and independent of personal preferences as they are obviously politically driven. It is important for us at FERI to tackle this challenge from the beginning from two sides: First, we must make sure to adjust our processes to be able to classify our existing investments within the ESG and SRI space and, secondly, we should be innovative when it come to the development of new investment solutions based on the ESG and SRI concepts.

Valentin Bohländer: We are advising private clients in investing in alternative investments for over twenty years now, and I can also confirm that interest for alternative investments has increased quite significantly over the last few years, particularly from institutional clients. We do have conversations around hedge funds, but the large pick up is in private equity, private debt, or real estate.



This is a significant development compared to five years ago. Pension funds, retirement funds, pension plans are now all interested in private equity, private debt, and as Thomas mentioned, this is related to the low interest rate environment. Everyone in that investor group has yield requirements or return targets and they are not achievable anymore only with the liquid, traditional asset classes.

If one of the goals of Quantitative Easing was to push investors to take more risk, the central banks were successful. But on the other side, ***additional risks have been created*** *because I am not entirely sure if* *everyone knows in what type of risk they are invested. Some investments have been made just because of some yield on it. This is a market risk that we may see unfold sometimes in the future.*

But let me back up a bit. Many of these investors are moving slowly and now for the first time into alternative investments, and so I can understand some hesitation regarding hedge funds. *Why is private equity, private debt and real estate more attractive for these investors?* I think it is easy to understand. Everybody has a relationship with real estate, and you can walk around the city and look at the invested property. Investing in a company is also something people understand, and they are familiar with loans. Therefore, private equity and private debt are easy to understand. Hedge funds on the other side with their various strategies are complex, confusing, inhomogeneous, which of course they are in some way. The main challenge with hedge funds is still education and explaining the workings and the benefits correctly, because I do in fact believe that hedge funds offer quite a lot of benefits to investors in terms of portfolio construction.

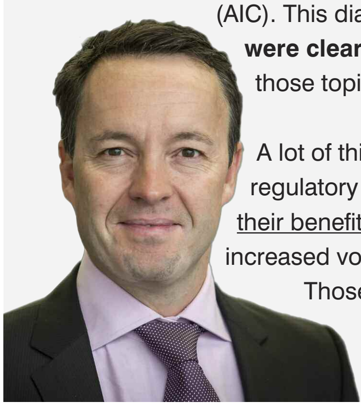
But a lot of investors are a little bit hesitant to access hedge funds. Equity long/short is quite easy to understand for most people, but if you consider more niche and complex hedge fund strategies, then people start to get a little bit uncomfortable because they don't really understand them. **Often these are the interesting strategies.** So, education of the end investor is still a challenge for the asset class hedge funds in general and I see it also as part of our job.

What doesn't help is what can be described as unreasonable, negative sentiment towards hedge funds in the public and the mainstream press, because the only stories are about bad performance, high fees, large cars, and big houses. I am not saying that those stories are untrue, and maybe there are too many hedge funds and some of them have no reason to exist or run money, but on the other hand, there are a lot of interesting managers which run a professional business and have a very interesting strategy and investment process.

The other thing is that a lot of people view hedge funds as one asset class, however at HQ Trust we don’t see it as a homogeneous asset class but rather a collection of various alternative investment strategies. You must understand the various return driver and return streams of these investment strategies, and only then you are able to differentiate between them and are able to implement them correctly in the portfolios. If someone is just talking that hedge funds are “not performing” or “expensive”, that is too easy and maybe also part of the reason why the view of a lot of investors are still negative on hedge funds.

Frank Dornseifer: I have been working now for 10 years with BAI, and thinking back to the first five years it seems like alternative investments where then the ugly frog that only few investor here in Germany were interested in kissing. Of course, there were some players with a significant exposure to alternative investments already, but only five or six years ago we could see a new dynamic in investor demand.

As I mentioned earlier we have a strong interlinkage with institutional investors: we have an investor board installed within BAI, we undertake annually investor surveys and many investors attend our events, especially BAI Alternative Investor Conference (AIC). This dialogue gives us valuable insight into investor needs, trends and preferences. **The last years were clearly dominated by illiquid strategies.** Private equity, infrastructure, private debt were indeed those topics who were predominantly addressed and discussed.



A lot of this demand was and continues to be balance sheet driven or has at least to some extent regulatory reasons, but nevertheless, we still and always urge investors not to forget liquid strategies and their benefits. And we see indeed growing interest again in liquid strategies, which is maybe also a result of increased volatility on the markets, lack of investment opportunities, political and economic uncertainty, etc. Those are good reasons to re-consider risk mitigation.

Also important to mention is the fact that **policy makers started to review regulation that was drafted at the peak of the financial crises.** These were hard times to have in depths discussions regarding consistency and impact of various pieces of regulation. To give some examples for regulatory revisions, there is on the one hand the Solvency review with the introduction of qualifying infrastructure, or right now the amendments regarding unlisted equities and unrated debt.

Lawmakers have become aware that they have to look at solvency as a regulation for long-term investors and therefore, also the capital requirements have to be adapted to long-term investing, even this happens to be conducted via liquid strategies. For example, the capital requirements for a hedge fund investment by an insurance company must not be penalized just because it is a liquid strategy. Right now, however, this is the case and the insurer is treated as a short-term trader. Therefore, my conclusion is to redraft the equity module within the Solvency directive and to reduce capital requirements also for liquid strategies.

In this context let me make a general observation regarding the fund and asset management sector in Germany. This industry in general, but the alternative investments industry in particular still does not have the relevance and also the reputation it should have. Especially in a leading economy where the financial industry contributes to growth and wealth, the asset management industry including the alternative investments industry should be positioned and perceived differently. This is quite different in some other neighboring countries where investors and governments have a different view on this sector.

When people in Germany talk about the financial industry, they usually think primarily of the banking and secondly of the insurance sector, but they don't really look at the asset management or the investment fund sector. But looking forward I believe this attitude has to change because **asset management will become much more relevant in the next years compared to the banking or the insurance sectors.** A number of studies clearly show that in the future the influence of the banking industry will vanish, likewise the influence of the insurance industry.

Contributing to this change in relevance and perception of our industry is also an important goal of our association. We want to make sure that the asset management industry has the reputation and the position it really deserves.

I found recently a quite interesting ratio which is assets under management by the fund industry to GDP. If you look at the ranking by total assets, Germany is currently ranked there as number three; around 10% of all European assets under management is managed from Germany. However, if we look at assets under management to GDP, we are number nine or 10 after Belgium which means we are really below the average in Europe, and while this worries me it is also showing us the way forward. So this is one of the reasons why I also believe that we need to discuss and develop together with the government an agenda where the German asset management industry should be in 2025. Especially as funds as investment vehicles for institutional investors will become even more relevant. Thus another reason to have a political agenda to strengthen asset management made in Germany.

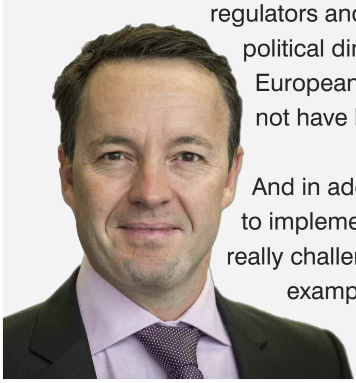
Dr. Thomas Maier: You mentioned your dialogue with the political side and institutions fighting for better and common-sense regulation. I wonder when you speak to politicians and decision makers about regulation, what is their level of true understanding of the issues at hand, is it more lack of knowledge or pure opposition or ideological motivations that cause them not to listen to obvious statements?

For example, there are some liquid MSCI World index components which are not eligible for UCITS investments. Those are traded like equity, are liquid like equity, but UCITS funds cannot invest in it, I think that this is an unreasonable regulation. Another example is the exclusion of outright shorting from the set of possible investment techniques of UCITS fund.

In practice, hedge fund managers are forced to use CFDs or other structures like options, futures, etc., to implement their strategy, and, as a result, making it less efficient, more cost-intensive and riskier (due to its more complex structure).

A non-intended side effect is that global investment banks serving as intermediaries between markets and funds take their cut from the investment money. A third example is the capital requirement for insurance companies to invest into hedge funds. **Although hedge funds on average have far less risk than equity investments, insurance companies have a higher capital requirement to bring them on the balance sheet.** Given all these obviously negative consequences to the industry, end-investors and social welfare, I wonder, what are you facing on the other side, is it more some ideological opposition or is it just the lack of knowledge?

Frank Dornseifer: That's a tricky question... The starting point for us is to talk to the experts at ministries, the Commission or regulatory bodies. Sometimes they have worked in the industry, but often not. During the financial crises it was extremely hard to find politicians willing to discuss the pros and cons of the various regulatory initiatives. Not everything well-meant by regulators and politicians was well drafted and elaborated. And finally, you should not underestimate the political dimension and the need to find compromises, for example between the EU Commission, the European Parliament and the Member States. Sometimes topics were – politically – linked which should not have been linked from their nature.



And in addition, a further concern is that a lot of very important issues are delegated from the political level to implementing regulations, technical standards, etc., i.e. level 2 or 3. The complexity of this process is really challenging, however, every piece of regulation is subject to revision – sooner or later and currently for example Solvency, AIFMD and other regulatory milestones are due!

Matthias Knab David, what is going in FinTech, particularly in the blockchain ecosystem in Germany?

David Finkenstädt: Over the past 10 years Bitcoin has shown us what permission-less and censorship-resistant decentralized systems are capable to do. Bitcoin was the first blockchain application and from that perspective can be viewed as a sort of prototype. Since then we have seen an explosion of so-called **second generation blockchains** which modified social and economic parameters to solve entirely different use cases.

So right now, we have **two classes, cryptoassets focusing on payment and "alternative money" and more application-focused cryptoassets.** Most people think only about the monetary aspects when they hear something about Bitcoin, but the balance is really more 20:80 with 20% of the assets focusing on money and 80% focusing on other use cases. This is really important to understand both from an investment perspective as well as from a regulatory point of view.

The internet has brought us free distribution and global accessibility of information. Blockchain has brought us the **unambiguous transfer of value between two untrusted entities without any**

intermediary in the middle, for the first time in history. That's a quite powerful concept!

What is the situation in Germany? Right now, we have around **120 startups working in the Blockchain space in Germany,** half of them are based in Berlin while the rest is based in other cities such as Hamburg, Frankfurt and Munich. Some of them are creating new blockchains themselves, which means they are developing the underlying software foundation required to operate a blockchain, including all rules for interaction on the blockchain. And some of them are working on applications that are built on top of existing blockchains.

We also have cryptocurrency exchanges in Germany, but so far the daily trading volume is below 1 million US dollar, whereas globally the trading volume is around 10 billion US dollar. So, its a rather small share for Germany right now.

When it comes to the operations of basic blockchain infrastructure, i.e. the mining operators that guarantee the security of blockchain networks, one has to conclude that no large-scale mining operations are based in Germany. These operations need a location with low energy prices and low outside temperatures to cool the equipment. Also, currently no mining pools are located in Germany. A mining pool merges the mining power of multiple miners to find new blocks at a lower variance compared to solo-mining. Today, most of the pools can be found in China and the USA but also in the Czech Republic. So, while there are about 120 Blockchain startups in Germany, the exchange and mining scene is quite underdeveloped.

Following the rapid increase in bitcoin prices at the end of 2017 and their subsequent decline, a number of investors are now trying to gain access to this new asset class. However, buying and storing these assets is a process that requires a certain level of expertise. There is interest from German high-net worth individuals and some family offices for professionally managed cryptoasset funds like the Postera Fund, but institutional investors are still on the sideline here, while we know that in the United States this is different. Having said that, we do see that there is a lot of demand for "investor education" on the institutional side. A lot of institutional investors as well as service providers are starting to look into cryptoassets, which is a first sign of emerging institutional demand.

Lastly, the availability of investment products is evolving quickly. When we launched the Postera Fund – Crypto I in April this year, it was the first crypto fund available in the German market. We believe that the fund offers best-in-class access to cryptoassets for professional investors, with weekly liquidity, state-of-the-art security features and professional active asset selection and management, all through a fully regulated vehicle. We look forward though to more professional products becoming available in the German market, as we believe that this will drive adoption of cryptoassets by institutional investors.

Paul Beck: From an exchange point of view, I would like you to focus on two areas. One is on interest rate swaps clearing, especially in the light of Brexit. Interest rate swaps have been mainly cleared in London by LCH in recent years but this is in the process of changing. **Eurex Clearing has built a credible alternative to the LCH,** providing market participants with a choice, when looking at where to clear their Euro denominated interest rate swaps.

At the end of last year we have put in place a partnership program with our clients and all major banks have joined this major market initiative. We now have around 30 international banks signed up for the partnership program and since the start of 2018 our market share has grown tenfold to a market share of 10% in the first nine months of 2018.

The other area is the **futurization of OTC products,** which is something we have been working on several years. A good example of this are dividend derivatives. This is a market that was established in the early 2000s by banks issued a lot of structured products and that hedged their inherent dividend risk via the OTC market through dividend swaps. The main counterparts to this trade were large macro hedge funds or some specialized funds in this area. In 2009, we introduced dividend futures on the Euro Stoxx 50 index and this market has grown quite exponentially in the last 10 years and brought in new players that were previously not active in trading dividend swaps in the OTC market. We have followed a similar concept with total turn futures in the last couple of years and recently reached the milestone of trading over one million contracts in that product.

MSCI is another example of this current futurization trend. Many asset managers are using the MSCI as their benchmark, but have been rather limited in their options when it comes to replicate those indices. Whereas in the past, you could do this via a basket of cash equities, an index swap of eventually ETFs, you are now able to use liquid futures and options, traded transparently on-exchange and cleared via the central counterparty, thus eliminating counterparty risk. Eurex is now the largest exchange in terms of open interests for all MSCI products globally.

Last but not least, we are also active on the volatility side with the **VSTOXX futures and options.** It took a while for the European VSTOXX to develop into a liquid product but since we have received CFTC approval, both volumes and open interest have been growing significantly over the past couple of years and is slowly but surely attracting interest from institutional investors.

Andreas Kalusche: Coming back to alternative investments, the bifurcation happening there is obviously private markets where complexity and illiquidity is driving the yield, and then the more liquid instruments on the other side. At Prime Capital we put hedge funds into the liquid side.

I agree with Valentin's point that hedge funds are not an asset class, but a benchmark free style of investing across many different asset classes.

To us, a **benchmark free investing style** has become more and more relevant for investors. For example, if you look at the volatility we have seen during this week and some of the recent weeks – which were pretty significant – and *if you were diversified with the right hedge fund strategies, you were adding diversity to your portfolio. This fact is now becoming much clearer.* In spite of all the obstacles, regulations, perception and others, this diversification benefit is an important driver why both private markets as well as more liquid alternative investments are attracting attracting many new investors across different investor types.

Dr. Thomas Maier: You are certainly right; however, I sometimes also have the feeling that some investors have a strong **preference towards liquidity** in the hedge fund space – maybe because of their bad experience in 2008 – even if they don't need this liquidity. I am referring here to long-term investors like pension funds or endowments. They do not need immediate liquidity, but they often seem to be willing to go only for liquid products, even when they select hedge funds.

When we talk about hedge funds to these clients, a good number of them tend to go for UCITS hedge funds or at least for monthly liquid hedge funds rather than the quarterly or the two years lockup hedge funds, whereas, in the private equity or even real estate space, they are happy to take some illiquidity of several years. I think this is pointing to a gap in the product offering or the regulations and perception for this mezzanine type of investment with a liquidity of say two or three years, which is currently not covered and which might be a point of focus in the future.

Valentin Bohländer: I agree that most of the investors don't need daily or monthly liquidity. Their investment horizon is much longer. I also believe that **liquidity is the wrong starting point when it comes to selecting and investing alternative investments** in general. I would rather suggest to first look at the manager and the investment strategy because those are the most important aspects to agree on or have a conviction in. We need to be convinced that this is the right strategy and the right manager to achieve the goals of the client. And then in the next step, we start to look at the various other criteria like which is the appropriate vehicle and what are the liquidity terms the manager is offering.

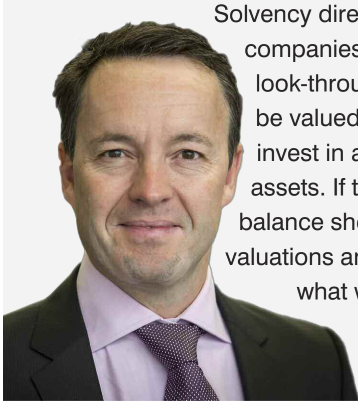
Some investors may have regulatory constraints, but others are psychologically constrained or something else. I think for investors who start a discussion with, "Listen, I need weekly liquidity, or I need monthly liquidity," that may be driving them in the wrong direction. Liquidity or less liquidity doesn't make an investment better or worse, it's more the manager and the investment process where the discussion should be focused on.

As a family office, we are happy that our clients can invest unconstrained, but I also understand certain institutional investor that have regulatory requirements to fulfill and because of that, they can only select out of a subset of the available universe.

I also want to address some of the regulation and/or perception around risk, and Thomas referred to this before, where I find that **hedge funds are not properly understood.** In my view, *hedge funds are in the current situation less risky than government bonds and clearly less risky than equities* which in the end can drive investors and to a certain extent the whole industry into the wrong direction. Let's look at liquid alternatives for a moment. To me, hedge funds are hybrids, so they are less liquid than daily but more liquid than a typical lockup fund. *But when things get to the point where an investment approach is adjusted to fit into a certain regulatory framework, most of the time you will get an inferior product.* The investment strategies often don't fit into the UCITS regulations and therefore it must be adjusted and change the characteristic of the investment.

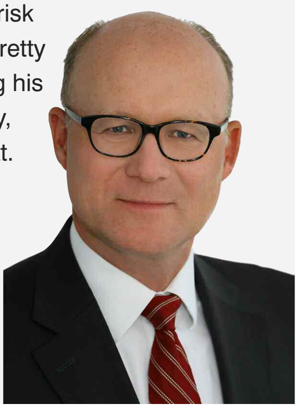
If you talk about this in detail with a manager, they might be telling you that they can implement 70% of their original strategy into the UCITS framework. The side effect is that you can get a higher equity beta, higher credit beta, and so an entirely higher correlation towards the traditional asset classes. This is not the way how one should invest in hedge funds. In the end, diversification is the only free lunch you get in the investment world, so investors should look for diversification from the traditional beta and add that to their portfolios. I personally think that **diversification is more important than a discussion about this weekly liquidity or monthly liquidity,** particularly for pension funds who invest for the long term and for the benefit of countless pensioners.

Frank Dornseifer: I completely agree, and this is why we as an association are currently working on the equity module of the Solvency directive. We believe it includes a general or a structural mistake. I mentioned earlier that insurance companies have been treated like traders, even though they are long-term investors. The problem with the look-through approach is, that, if there are liquid assets in the portfolio such as listed shares, they have to be valued in principle on a daily basis which is not always helpful for a long-term investor. Even if they invest in a rather illiquid hedge fund, they still have to do the look-through approach to the underlying assets. If there is a change in valuation, they have to do that in their portfolio immediately and in their balance sheet as well, and that's the problem. For private markets investments they have less frequent valuations and this helps. The long term approach should be better reflected in the Solvency directive. That is what we try to achieve in the review process.



Andreas Kalusche: I don't want to be a fundamentalist on the liquidity perspective but let me add a historical perspective. Originally, institutional investors were managing and conducting their own investments, so they did the buying and selling of stocks and bonds on their balance sheet. Then over time, they started outsourcing the executing of certain transactions to fund managers, simply because they were not equipped to invest say in Japanese stocks or in US corporate bonds. *I would agree that at the end of the day, a large majority of institutional investor has per se the desire, and I think also the requirement, to invest long-term. But at the same time, they have to be in the position to change the composition of the portfolio.* This is not contradicting the status as a long term investor, but they have to be in a position to execute and to make certain adjustments themselves.

This has changed significantly over the last 15 years when more and more assets were outsourced to fund managers and more investments in semi-liquid or illiquid strategies where conducted. Now, *from an institutional investor perspective, maybe around 50% of the balance sheet is out of his hands, just to give a number. He cannot plan this balance sheet easily anymore, he does not know what the exact income is but only gets told in November what sort of distribution he could expect.*



Therefore, from an institutional investor perspective, these investors have syndicated, so to speak, the risk and also the management of part of that balance sheet to asset managers. I think in that respect, it is pretty normal that an institutional investor can only do so much illiquid investment because that is challenging his positioning even more. I'm a firm believer of the fact that there is a significant value to invest in illiquidity, in complexity, in long lockups and you can expect more yield in that respect if you can afford doing that.

But from an institutional investor perspective, whether that's insurance companies or pensions funds, investing in illiquid investments is not really their DNA and it's also not the way that they need to manage their asset side vs their liability side on a year-on-year basis.

Paul Beck: This is an interesting discussion, and provides a different perspective from the exchange side where things can seem to be cut the other way around. For example, we have a differing concerns about liquidity or having your money available within like months, or a quarter, or a year, for us it's about providing a highly reliable, fair marketplace where people – if they want – can transact in milliseconds.

I also would like to comment from a risk point of view. At Eurex we have heavily invested in our clearing and risk infrastructure over the past few years. We implemented a new risk methodology called PRISMA which stands for **Portfolio Risk Margining.** This allows us to view the positions of all clearing members and non-clearing members on a real time basis and thus being able to guarantee a safe and well-functioning market at all times.

Andreas Kalusche: I have a question for David, how liquid or illiquid is crypto?

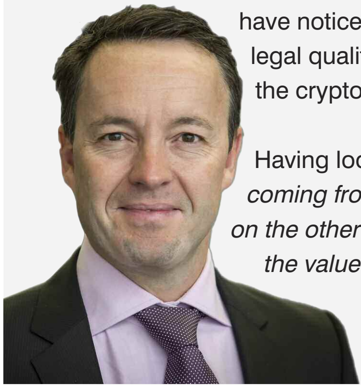
David Finkenstädt: Large cryptoassets by market capitalization are highly liquid. You have global exchanges running 24/7, there are no limitations regarding to trading hours. You are not really trading currencies, so this is not a classical FX market, but instead you are trading some kind of venture capital style investments. On new information, you are able to liquidate your stake in a project within hours or minutes. So, you have full liquidity with cryptoassets and also liquid access to new venture capital style markets.

With the Postera Fund, our goal was to reflect the asset class's underlying liquidity. The fund provides weekly liquidity, which is a novelty, since most crypto funds so far have been set up in a hedge fund style with lockup periods of several months or in some cases even years.

Cryptoassets are also interesting with regards to diversification. If you check correlations between cryptoasset prices and traditional asset classes, you will see that they are mostly uncorrelated. If you dig a little deeper and check the *intra-cryptoasset correlations,* you will see that in bear markets the correlation is somewhat stronger than in bull markets, where we have very low correlations between the cryptoassets themselves. This means that if you want to enter the asset class, it makes sense to build up a diversified portfolio of cryptoassets.

Frank Dornseifer: BAI of course monitors the emerging asset class cryptoassets, especially as this is truly an alternative asset class, even right now a niche one. We are observing the recent developments also in the regulatory context and are in a dialogue with the German regulator BaFIN about the regulation of crypto assets in general but also as assets for alternative investments funds. I think Postera did also some pioneer work in this field.

From a regulatory viewpoint we should bear in mind that crypto assets are very heterogeneous, especially as they can have different rights and obligations, they can grant participation rights or the right of usage, they can represent ownership they can grant no right at all, etc. Thus there is indeed the necessity to qualify those assets or tokens and – if they are similar to a financial instrument – they have to be subject to the same regulation like similar financial instruments. Some have noticed that there is currently a severe clash between the BaFin and a court in Berlin regarding the legal qualification of Bitcoins. So there will be for a while a dialogue going on which is highly relevant for the crypto asset / crypto currency industry.

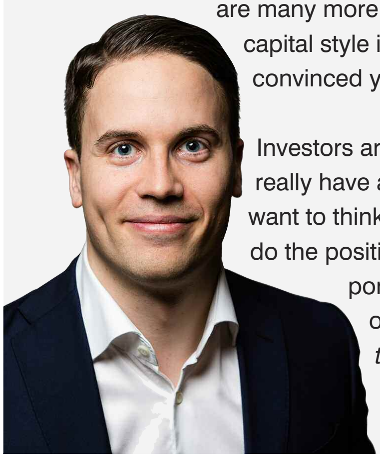


Having looked at regulatory and investment issues I have to conclude that *the technological change coming from distributed ledger technology / blockchain on the one hand, big data and artificial intelligence on the other side is huge and maybe even more relevant for the alternative investment industry. All levels of the value chain within the alternative investment industry will be affected.*

Paul Beck: From Deutsche Börse Group point of view, the distributed ledger technology or blockchain technology is a key opportunity for the creation of new market structures, adding new products onto our present structures and enhancing our existing offerings. Its potential cuts across our entire value chain – pre-IPO/listing, trading and clearing, settlement and custody, and even the data and analytics business. Of course, the expectations are high and not all of them will be fulfilled – blockchain will not be the answer to all our questions. Yet the digital economy in general is heading for decentralisation. *In the future, there will be more peer-to-peer governed marketplaces and less intermediaries. In that regard, blockchain has the potential to disrupt the capital markets infrastructure.* It is a decentralised ledger of all transactions across a peer-to-peer network, where participants can confirm transactions without the need for a central certifying authority. Many other industries have also acknowledged the significance of this technology.

Deutsche Börse Group has already been active with a couple of initiatives in the area of Blockchain. Now, Deutsche Börse's Executive Board has decided to set up a dedicated DLT, Crypto Assets and New Market Structures team to further advance the topic.

David Finkenstädt: When it comes to investments in cryptoassets, there are a few qualitative aspects which I would like to cover. Firstly, if you look at cryptoassets as alternative form of digital money, a cryptocurrency can be used as a store of value or a medium of exchange. Secondly, and this is important for investors, cryptocurrencies can provide you with a hedge against inflation and an insurance against economic turmoil. Beyond the "use case" of alternative digital money, though, there are many more use cases. From an investment point of view, one way to think of cryptoassets is as a venture capital style investment with high liquidity. These are just two qualitative arguments, and if you are not convinced yet, you might buy into the quantitative argument.



Investors are always looking for new assets to add to their portfolio and to generate alpha. I think they will really have a hard time to find another asset class with a comparable risk-return profile. So, investors might want to think about adding small amounts of crypto exposure to their portfolio, because if cryptoassets will do the positive things to the world we think they will do, it will be a relevant driver of returns for that portfolio. If it does not work out, the position should be small enough so that it does not hurt overall portfolio performance disproportionately. *I would argue that anyone with zero exposure to cryptoassets today should re-consider their portfolio composition.*

Valentin Bohländer: I would like to take a broader perspective on all these topics. Blockchain, crypto currencies, artificial intelligence, big data, all these buzzwords and ideas are very trendy and very hyped at the moment. I think we are in a market environment or a period where a lot of things get tested, and the final answer or direction isn't there yet. Will cryptocurrencies have any real added value to the portfolio? Is artificial intelligence really working for signal generation? Many quant managers which have been around for decades are testing the new techniques and playing with it, adding a bit here and there to the portfolio. But I am not aware that any of them is offering a program just based on artificial intelligence. For me, this is a statement that people are still investigating and trying out the technology, and I would say the same applies to big data.

Everyone is now buying credit card or satellite data of parking slots of certain retailers. I am still not convinced that this kind of data really can add value. As mentioned before, a lot of the dynamics in the current market environment is driven by low rates and QE, and everybody is looking for some returns. But we don't know which trends will persist over a longer term or maybe just until the next crisis. Maybe we'll see then the return of the real value in the traditional asset classes of equity and bonds because people can value them.

I am not saying that we are not interested in these new technologies, we are looking and investing at robo advisory or in digitalization, and we also look at blockchain, cryptocurrency, and artificial intelligence. It's all interesting, but there's not a proof for us now that we have to really invest money into it right now.

Dr. Thomas Maier: Right now artificial intelligence is more a possibility than a reality. In the literature there are many different definitions of artificial intelligence. In my view, at least one of the following three aspects must be fulfilled to speak about AI: self-consciousness of the system, the creativity of the system or a self-programming code.

However, if you look at all the asset managers playing around with artificial intelligence, and even the tech companies outside the financial industry, they are actually not using any disruptive technology, instead, they use only software developments or improved quantitative systems, maybe based on new interfaces and communication models. In finance, approaches like statistical arbitrage and empirical quantitative systems have been in place for more than 20 years, and they are now just becoming better, maybe using big data, but that's not a disruption at all. AI might become one in future, but we are not yet there, at least not in the asset management industry.

I also wanted to add a comment regarding the usefulness of the Sharpe Ratio particularly for investment selection. The first issue is that Sharpe Ratio is typically only based on historical returns, and so just that fact does not support in my mind to categorize investments as good or bad. From a wholistic portfolio management view, Sharpe ratio of a single investment is not helpful either, as one should focus on the Sharpe Ratio of the whole portfolio rather than the **Sharpe Ratio of one single portfolio** component. For us, typically a correlation/ market dependence measure and the corresponding return expectations for single investments are much more helpful than simple Sharpe Ratio of a single investment or part of the portfolio. In addition, the asymmetry of return streams of many Alternative Investments let us believe that the Sharpe Ratio is particularly irrelevant for these investments. More general approaches like the diversification delta or the use of other risk measures seem more helpful to us.

David Finkenstädt: Relying too strongly on historical data is especially dangerous for young and dynamic asset classes such as cryptoassets. Investing in cryptoassets has a strong option-like component, similarly to early stage venture investments. Think of investing in Facebook when Mark Zuckerberg was still studying in Harvard and doing his thing. To do that requires some kind of vision to see where these things could be going. For cryptoassets, we already have many data points: If you look at Venezuela or Zimbabwe and the hyperinflation going on there, you already see real-world usage of cryptocurrencies.

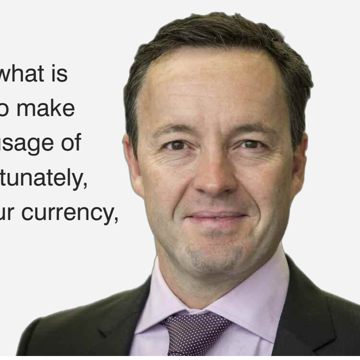
Another aspect why the idea of cryptoassets is so powerful also stems from the fact that 50% of all of the global adult population does not have access to financial services. The ability to store and transact value is very important for economic development. Blockchain will most probably allow financial inclusion of a significant amount of currently excluded humans.

Valentin Bohländer: But here, David, we would be talking about real-world applications which are pursued to solve a real problem. So here we are in the 80% application universe of blockchain you had mentioned before. But my earlier comments about cryptocurrencies were directed at the monetary functions of cryptocurrencies as an asset class where maybe at some future point we will be doing it, but for now I don't see that investment case as proven.

David Finkenstädt: Of course, my point here would be that the technology is perfectly proven, it has been around for ten years now. Different use cases are being developed, which is something that is happening now in all parts of the globe. While many of these use cases are in a very early phase, adoption can happen quickly: A lot of these things happen exponentially.

Dr. Thomas Maier: There are interesting and innovative models coming out. For example, I have just recently seen a token concept by which you can buy token of assets representing a square millimeter of a skyscraper in New York. Again, probably not being a huge market disruption, it will actually render markets and information exchange more efficient and therefore in the long run also more liquid. Our approach is to invest into the enabling technologies and profit from the improvements at the market side rather than currently investing into cryptocurrencies or tokens directly. So far, although the temptation was large at the end of 2017, this strict approach has benefitted us tremendously. However, this view might change in future, when regulation finds its way into this asset class as well.

Frank Dornseifer: The main big idea behind cryptoassets, the **digitalization of assets,** this is what is makes it so fascinating for me. If, at the end of the day, we are able to digitize assets and then to make the transfer easier, the storage and the custody easier, this will be a groundbreaking, practical usage of the technology. That's what I meant when I said blockchain is going to change the industry. Fortunately, we are not in a country like Venezuela or Zimbabwe where we cannot trust in our money and our currency, even though Italy is currently challenging this again.



David Finkenstädt: But also, the monetary policy of the United States right now is not something everybody is happy with. If you look at the Central Banks, they are not really transparent whereas crypto is transparent. You can look at the technology, you can look at the rules, the math and the algorithms, you know exactly what you are interacting with and under which conditions. You cannot say this about most of the government issued money today, I think.

Talking about regulation, global cryptoassets regulation is a patchwork carpet right now. In Japan crypto currencies are defined as legal tender, while in neighboring China most cryptoassets are banned. This shows how far we are still away from a stable regulatory regime which would be needed to drive innovation and especially large-scale investments by institutional investors. We are dealing in one global market, so regional approaches miss the point. Good regulation will go a long way in bringing institutional money into the scene while bad regulation will dampen this nascent economy.

Matthias Knab Crypto regulation is really a very interesting development to look at internationally. Different jurisdictions are competing to be in the lead and to attract this business, some already with a dedicated regulatory framework such as Malta, Bermuda, and of course the Swiss, Singapore, Gibraltar and a few more are very active to position themselves for being the hotspot for these new assets. It will be fascinating to see this world further develop and how exactly some of these places will then end up creating employment and wealth to their societies, effects which usually come when a new industry blossoms.

Talking about blooming and blossoming, let's take a look at green finance, sustainable investing, SRI and ESG, how is Germany doing there, what do you observe?

Andreas Kalusche: **2018 is also the year of SRI in Germany,** at least in our firm, Prime Capital. We have been slow in looking at this topic up until middle of 2017. When we started to interview people who we wanted to hire for our international business they said, *“Well, if you go to Sweden, if you go to Holland, if you go to other parts of Scandinavia, one of the first questions will be, 'How sustainable are your assets?'”* And secondly, if you want to attract talent, they very quickly pick you up on how attractive is the offering that you as a company provide.

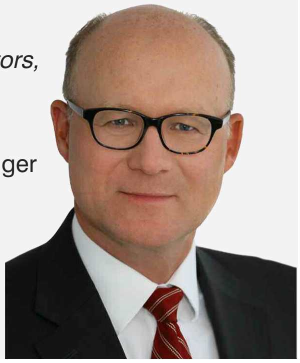
That was one development. The second was that we got a number of cautious and polite requests from large German institutional investors who were trying to find out what we as Prime Capital where doing in the SRI field. This was not indicating that if you don’t do anything at this stage there that we would not getting their business anymore. I am not sure whether this was triggered by a particular event, but somehow in the third quarter of last year, we got maybe four or five of these requests.

And then thirdly, we also started to get some clearer guidance. We do not have a lot of business in Holland and in Scandinavia at this stage, but investors in these countries became aware of us and in fact they really *put these criteria at the very front of their RFPs* - the SRI train of knowledge was driving pretty fast, I have to say.

I have also investigated quite a bit this year about SRI. I’m also speaking to Frank at BAI about this in some detail. Additionally we were looking at equity managers, speaking to associations that are closer to traditional long-only equity investing who are more advanced in this field, and then we were discussing about how this is applicable for eg. hedge fund investing or for infrastructure investing.

We are today part of **UN PRI’s working group on hedge funds** as one of 75 members globally. Interestingly, when we were participating in the discussion rounds, we found those to be highly diverse. It is a major challenge to define globally standardized SRI criteria for hedge fund investments.

Nonetheless, *I agree with Frank that this is a relevant topic, not only for churches or endowment investors, but for many investors and I believe that if you haven't already, you better start thinking about how to approach these questions.* We also believe that simply signing UN PRI isn't enough. We much more believe that a firm has to live it and should think through what they want to do going forward. The younger our employees, the more interested they are in the topic. I think it's also good for some of our more matured colleagues to get pushed bythe younger generation in this respect.



Matthias Knab I read the other day that in Germany there are 19 different certifications for green finance products. I did not look into those in detail, but we can safely assume that they are all different and that there is a real need for more standards and harmonization in this space.

Andreas mentioned that it is a challenge to apply an ESG and SRI criteria to hedge funds. I read an in interview with someone from Lyxor where a team has started to screen fund providers for their actual ESG compliance. That team has also decided, after long discussions, to categorize short investments as not sustainable. So funds doing short investments get a get a negative rating for that. I found this highly interesting because you could also argue that going short is important for price discovery – just think about the derivatives market as well here – or that going short a company which another ESG compliant manager would be selling because of the company's shortcomings, this short could also be seen as a leveraged sell. So I agree that there's a huge amount of discussion and standardization to be done, both in the long-only and the long/short world.

Frank Dornseifer: A while ago the EU Commission has launched the so-called **sustainable finance initiative** which gets major support from the EU parliament and also from the national governments, but also from the industry and finally from institutional investors. A lot of German investors are of course already signatories of UN PRI, nevertheless – and thus I have to agree with Matthias – there is indeed some need for harmonization that will help both the financial industry and investors. My concern, however, is that the taxonomy proposed by the EU Commission leaves a lot of room for discussions and disagreement, especially once ancilliary regulation, technical standards, etc., have to be developed.

There will be a lot of technical experts involved and discussions maybe not be as transparent as they should be for the sake of the industry and investors. This is one reason why we will very closely monitor this initiative and already got involved in an early stage.

My resume on this topic is and was already more than two years ago: the implementation of ESG in your portfolio and asset allocation is simply good risk management. Not taking care of these fundamental issues would be negligent.

On the other side I don't believe that specific inducements like reduced capital requirements for ESG investments should be introduced. This may create green bubbles we do not want, I am pretty sure.

Valentin Bohländer: We also see a pick up in the interest around ESG, and one can see some generational differences. Generally, the so-called next-gen in our client group is asking more questions around ESG. But we also have some clients who have requested ESG already for a long time.

One problem with ESG is that it can mean a lot of different things for different people, firms and market participants. What is ESG, really? I mean, everyone can agree on certain criteria, but if you ask 10 people for their specific understanding you get 10 different definitions for ESG.

And next, let's just look at the company level. So, you implement ESG in the investment process and start looking at companies from that perspective. There may be companies where one would say like, “Oh, that’s a good company!”, but depending on what specific ESG criteria you are looking at, suddenly the firm is not eligible anymore since it has 10% in some industries that for a certain ESG view or interpretation can be a knock-out. This means that suddenly, your investment universe can get challenged, or vary in size, and worst case shrinks significantly depending on the chosen ESG criteria.

I mean, there is no universal law that there must be ESG or a certain expression of ESG, it comes down how specifically the clients think about it. But we cannot really have 15 different views on ESG. We need to define a global standard first, and then we can discuss the implementation. The current discussion is influenced by certain investors and politics, but there is also the view to let the market solve and sort out ESG and the ethical allocation of capital to it over time.

Therefore, I think the ESG discussion is a rather difficult one. If you look at the diesel scandal in Germany, no ESG criteria would have banned VW or BMW from the investment portfolio. But now it's the society which is questioning the usage of diesel in cars. And if at some point most cars are electric, we will have to analyze how the energy is produced and if that new demand meets ESG criteria. My main point is that ESG is relevant and will be more relevant for all investors going forward, but there is no straightforward implementation of ESG.

Dr. Thomas Maier: Indeed, we could have a deep and philosophical discussion about how much moralistic and ideological intervention we want in the financial markets and whether it would not be better to let the markets work themselves and then extract the profits by the governments and distribute them in a better and more efficient way. *My fear is that because of this lack of homogenous and clear SRI or ESG definitions, there is also plenty* ***space for misuse.*** *It has been shown that in general larger companies find it easier to get all those SRI labels than the small companies, although they might be less ecological and/or less socially responsible. Just because they are larger, they can fulfill the classification standards more easily. And secondly, it has also been found that the larger firms having all the appropriate communication processes about ESG in place helps them to be perceived in that way.*

And lastly, screening on ESG form a pure numbers' perspective is adding further constraints on your investment universe. I'm so bold to state this as a fact and not as an opinion, and we all here would probably agree that putting further investment constraints on any investment strategy will not improve the risk adjusted return, just by definition. If you have further constraints, then your risk adjusted expected return is obviously reduced, at best it stays the same. I know that some people are stating exactly the opposite looking at short-term numbers, but in the very end, it’s quite clear that ESG and SRI are actually reducing return expectation over the long run. And so, for me the key question is: If you have those altruistic views, how much of risk-adjusted return are you willing to give for being investing into ESG compliant securities? This is a question every investor must answer on their own.

Andreas Kalusche: For slightly larger organization like ourselves, it's a pretty conscious decision whether we want to sign a certain association's articles or not. It has a cost-effect, also time cost, but I also believe that this "train" has departed and that other investors who are regularly mentioned, eg. the large Nordic and Dutch pension funds, have done the same conscious decision on their side.

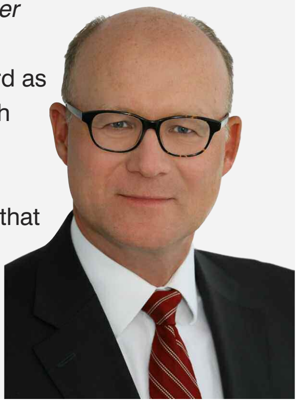
When you see ESG questions as number three or number four in their RFPs, this tells you something, and I guess it's also an exclusion criteria for doing business with those institutions. It is now up to us to demonstrate to those investors and others that we are taking care of their concerns in all parts of our business, for example also in how we construct wind parks or solar parks. With such projects, we do believe that you can do detailed environmental due diligence.

For example, we are building currently the second largest Norwegian Wind Park in Tromsoe, which is up north in Norway. And we had intensive discussions with environmentalists, reindeer herders, and people who need drinking water from the ground. So, we had to pay very significant attention to our partners there. I mention this because you see that *having a seal from an association is not enough, but you need to express the ESG mindset in your business and communication practices* and do our part so that the world moves into this direction.

So, again, I think the ESG-train has left the station. On our side, we are much more ESG conscious when we do our investment analysis, and hopefully we also won't be having to deal with too many restrictions, to Thomas' point.

But I think that eg. Allianz is actually giving a very interesting example in that respect. They made it clear that **Allianz doesn't have a negative screening list,** so they could even invest in say weapon producers or a steel or aluminum smelters which are the most energy consumptive industries. Instead, their way of ranking companies is by giving certain points according to their specific criteria, and what counts is the sum of all the points.

So for example, an aluminum smelter, which for many investors is today probably a no go in terms of ESG investing, has decided that they want to be in 2030 or 2035 much advanced in their environmental strategies. This decision could be the strategy that will have the most absolute positive impact environmentally in comparison to many greener companies today. Supporting such a transformative process would not happen most other ESG processes, because that firm would get a low mark with most investors. But shouldn't we want to reward as much as possible when a company is doing all they can for a significant, positive impact in and through their business?



So I agree with Valentin, ESG is a diverse topic and a challenge, and there are no easy answers. From that perspective I would also hope that politicians and regulators who are currently looking at this will be making the right decisions that will have broad benefits for the long term. And as we heard as we heard in May and June 2018 form the EU Commission they will start with a proper taxonomy first.

David Finkenstädt: With regards to crypto and ESG, investors always bring up the **energy consumption of the bitcoin blockchain.** Here it is important to understand that technically the bitcoin blockchain itself can be run and operated by only one miner. So, we actually don't need all these large-scale mining operations consuming this large amount of energy just to process a defined amount of transactions.

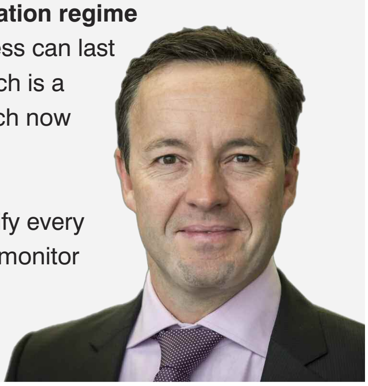
However, the energy used for the bitcoin blockchain is used to secure the blockchain, and security has some price, of course. I mentioned at the beginning that bitcoin is the first generation blockchain and the second generation of blockchains are implementing other methods to secure the blockchain, e.g. proof of stake that does not need any energy. The cryptoasset Ethereum has the consensus mechanism proof of work, e.g. mining, and it's now switching to "Casper", which is an implementation of proof of stake within the next few months. So, *from the responsible investing perspective, we will see significant developments also in cryptoassets.*

Matthias Knab Any other final comment?

Frank Dornseifer: There is just one regulatory issue that I would like to briefly address at the end of this discussion.

The EU Commission proposed earlier to **harmonize pre-marketing activities** for funds in Europe. There haven't been any shortcomings in this regard here in Germany as BaFin, but also other regulators in Europe, had a quite pragmatic approach regarding the presentation of new investment ideas and strategies to investors in an early stage before the fund is finally set up. *Now the Commission but also the European Parliament tend to allow pre-marketing activities only if the AIF subsequently is formally notified to the regulator. In addition – and this makes it worse – in the period until the fund is formally notified, institutional investors would not be permitted to sign the fund on their own initiative (so-called reverse solicitation).*

In other words, the new regulation, if adopted finally, would de facto **abolish the reverse solicitation regime** and force every manager to formally notify every fund. We all know how long a notification process can last in some member states, so time-to-market and time-to-invest would be significantly delayed which is a real disadvantage, and therefore we continue to lobby intensively also in the trilogy debates which now started.



This topic is also highly relevant for non-EU-manager who would be then obliged to formally notify every fund, which does not make sense. I think this is a good example why we really have to carefully monitor regulatory activities and why it is important to have lobby associations as BAI.

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Business decision makers LOVE online video because it gives them the most amount of information in the shortest amount of time.
– Bob Wies / President MV Digital

When done correctly, all you need is one video to build up highly targeted traffic for a really long time.
– Carey Lowe / Marketing Consultant

Video marketing is the most effective way for you to get someone's attention and engage them for a substantial period of time. Keeping someone engaged is the best and quickest way to gain their trust. Gaining trust is the only way to convert your audience into happy, long-term clients and customers.
– David Grimes / Marketing Manager

Video solidifies your online presence while building deep and meaningful relationships with your customers. It adds a personal touch to your brand while increasing your conversions! Videos are now an expected component of any website.
– Lilach Bullock / Marketing Consultant – Forbes top 20 women power influencers

It's more effective:

Video attracts two to three times as many monthly visitors, doubles their time spent on the site and has a 157% increase in organic traffic from search engines like Google.
– Marketing Sherpa

And more *cost effective*:

Video promotion is 600% more effective than print and direct mail combined.
– Diode Digital

One minute of video is worth 1.8 million words.
– Forrester Research

Video content can increase the chances of front page Google ranking by 53 times
– Cisco

And did you know that:

Online video is shared 1200% more times than links and text combined.
– Simply Measured

75% of executives watch videos while working.
– Forbes

"The Opalesque videos are a clever solution to the persistent problem of getting to know managers' style and philosophy within a dizzyingly large universe of possibilities and with increasingly limited time. More managers would be wise to step out of their 20th century shells to embrace the new economy of communication technology to find more efficient ways to convey their story and message to existing and prospective investors."

Adam Choppin, Manager Research & Investment Strategy of FIS Group

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.

Opalesque started shooting manager videos in 2009 - you will probably know that **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Danny Yong, Elena Ambrosiadou,** and **many other hedge fund legends** have produced videos with Opalesque. We have also produced videos for some of the **biggest institutions** as well, such as **Morgan Stanley, State Street Global Advisors, M&G Investments.**

Save up to 50% in travel costs by making your first meeting the second one

Have you ever spent time and money to take a trip to present your fund, only to hear, *"Thank you for coming to our office, and please keep sending me your reports ..."?*

What if you had known before that the investor is looking for something else?

By sending their video to prospects **before the meeting,** the manager wins twice. Should the investor be looking for something else, the manager can focus his efforts on those investors who watched the video **and liked** what they saw.

In these cases, managers tell us that the first real meeting becomes more like a 2nd meeting (the 1st one being the video) as the groundwork has been laid and the meeting will be much more successful and achieve much more compared to a regular first meeting. By better **qualifying your leads**, you can basically halve your travel budget and raise more assets quicker.

Compliant

- Opalesque.TV videos are produced to comply with your regulatory requirements
- Allow for true reverse solicitation

You're in control

When you're doing a custom Opalesque.TV video, you have full control about any aspect of your message. This is not a given in any other regular media coverage.

A manager portrait on Opalesque.TV is generally designed to simulate a first time meeting with a prospective investor, meaning that questions like the following will be discussed:

- Please introduce yourself and your firm
- What is special about your strategy?
- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

Working with a trusted partner

Over 1.3 million people have watched one or more Opalesque.TV videos, which means that the people you may be targeting will already be familiar with Opalesque.TV videos.

Managers like **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Elena Ambrosiadou, Anthony Scaramucci,** and many others have done Opalesque videos, as well as institutions like **Morgan Stanley, State Street Global Advisors, M&G Investments.**

Broad distribution

You can either produce a private video with us, which will only be hosted on the non-public part of your website, or we can offer you the broadest possible multi-channel distribution on Opalesque.TV and our partners like Reuters and other leading platforms. Contact us to discuss your custom distribution package.

Managers have **quadrupled assets** thanks to our video ($700m to $2.4bn in 1 year) and also received a book contract or **invitation to speak at the World Economic Forum or at TED** through our video:

- 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$10,000 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 $15,000, so $1,000 will be billed for each additional minute 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:
http://www.opalesque.tv/most-shared-hedge-fund-videos/

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