



Opalesque Roundtable Series '18

SWITZERLAND

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Editor's Note

For a number of reasons, more quantitative and systematic investment managers have recently set up in Switzerland, whose pension system is also discussed in this Roundtable in great detail.

On the investor side we generally see a much **higher degree of uncertainty** than in previous years. *Equity multiples are on the upper end, despite the recent October/November corrections; fixed income suffers from gradual quantitative tightening and the reversal of asset purchase programs by central banks; real estate and private equity are expensive and in their late stages while at the same time investors' required returns cannot really be much more reduced.*

For 30 years, interest rates have come down, and most money managers these days have never experienced that when equity markets go down, that maybe they will lose on the bond and the fixed income allocation too. Given this outlook, it may be imprudent to skip alternatives or hedge funds per se. However, due to the perceived underperformance of hedge funds and the fact that illiquid asset classes have had a good run in the last ten years, many alternative investors have turned to those asset classes. But markets move in cycles, and passive investors will probably feel any future pain more.

Some investors and even consultants are therefore turning their attention to active liquid, unconstrained managers, particularly to **quantitative and systematic strategies** which generally have the benefit that they can be analyzed in greater detail. With the recently more normalized volatility regime, many of these strategies have also started to work better again. It's also easier to see weaknesses in systematic strategies because you can know better when they will work and when they will not work. This then also makes it easier, from a portfolio perspective, to find something that works well when the other one doesn't.

The Opalesque Switzerland Roundtable, sponsored by Eurex, took place in Zug with:

1. Dr. Christian Kurz, [Managing Partner & CIO, Strongbox Capital](#)
2. Daniel von Allmen, [Chairman & CIO, Progressive Capital](#)
3. Eduardo Montes, [Founder & CEO, MaCX Asset AG](#)
4. Ivan Popovic, [Managing Partner & CEO, Tolomeo Capital](#)
5. Markus Matuszek, CFA, [Managing Partner & CIO, M17 Capital Management](#)
6. Sebastian Schaefer, [Managing Partner & Founder, Green Shoots Capital](#)
7. Vincenzo Zinnà, [Equity and Index Sales, Eurex](#)

The group also discussed:

- Opportunities with semi-liquid niche alternative products (page 8). Investor-friendly: Sharing a single high watermark (page 24). What happened to 1 or 30 fees? (page 15)
- Should investors be adding to Private Equity now? (page 7-8). Risks in fixed income and private debt (page 9)
- What is the right time to hedge a portfolio? (page 8). How should you time hedge funds? (page 10, 12)
- Swiss Pension Fund system: Risks of pure passive equities (page 9). Costs of lack of resources and specialization (page 15-16, 19-20). Reducing TER doesn't mean improving net returns at the same time (page 20). Why SUVA is leading the way (page 21)
- What's a consultant's job, really? How to benchmark consultants (page 10, 19)
- How to (better) sell alternative investments (page 12-21). Is the sales cycle for alternatives getting longer and longer? (page 13-14)
- Why people got hedge fund analysis wrong, very wrong (page 13-15) Hedge fund transparency and why the mutual fund industry celebrated big time five years after 2008 (page 15)
- Eurex' new six factor futures on iSTOXX and other innovations (page 22-23)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT):

Matthias Knab, Eduardo Montes, Markus Matuszek, Dr. Christian Kurz, Sebastian Schaefer
Mark Lowe (guest), Daniel von Allmen, Vincenzo Zinnà, Ivan Popovic

Introduction

Sebastian Schaefer
Green Shoots Capital

My name is Sebastian Schaefer, I have been running Green Shoots Capital since 2009 and SteppenWolf Capital since 2012. We are focused on liquid alternatives consulting and investment management for professional and institutional investors globally. Prior to Green Shoots, I was a Regional Head at Man Group and before that I was in investment banking.

I have been in hedge funds for nearly 20 years now. It's the industry I want to be in and remain in. I'm passionate about helping institutional investors to run better alternative portfolios and make better alternative investment decisions, help them find excellent managers out there and develop new strategies with and for them.

Eduardo Montes
MaCX Asset

My name is Eduardo Montes. I spent most of my professional career as a systematic asset manager. I was one of the founders of Quantica Capital, spent a few years at UBS, and three years ago I started MaCX Asset, a technology based asset management company investing through futures using innovative systematic techniques.

We focus broadly on the use of technology to push the boundaries of what has been traditionally done in the quant space. My partners and many of the people working at MaCX have a background in software development and in hard sciences. This creates a good base for interesting and thoughtful R&D, which is something we care about and focus much of our efforts on. We are continuously working on developing new strategies and new approaches.

Dr. Christian Kurz
Strongbox Capital

My name is Christian Kurz, I am co-founder, Managing Partner and Chief Investment Officer of Strongbox Capital based in Zurich, Switzerland. I hold a PhD in finance with a focus on behavioral finance and diploma in business administration. Before Strongbox I was working as Lead Investment Management Advisory for a leading advisory company based in Zurich and as Senior Portfolio Manager for a \$3.5 billion alternative asset management company based in Zug, Switzerland. In addition to my role at Strongbox, I am a visiting lecturer for Alternative Investments and Portfolio Management at the International School of Management (ISM) as well as Behavioral Finance at the Nürtingen-Geislingen University (HfWU).

Within Strongbox I am responsible for the investment strategy and the portfolio management. Founded in 2016, Strongbox Capital is an innovative asset management boutique focusing on behavioral finance and providing completely quantitative investment services as multi-family-office to wealthy individuals as well as to institutional investors.

Ivan Popovic
Tolomeo Capital

My name is Ivan Popovic, I'm the CEO of Tolomeo Capital. Tolomeo is a purely systematic asset manager based in Zurich. We focus on fully systematic short-term trading, mainly in global equities. Our holding periods are fairly short, ranging from a couple of hours to a few days. That puts us in between the high-frequency managers and the more traditional quant managers which typically have longer holding periods. We find our niche is still a fairly uncrowded segment of the hedge fund universe compared to other areas where you'll find hundreds of similar investment strategies or managers.

In 2011 the team of Tolomeo spun out from one of the largest single-family offices in Zurich, which is still one of our most important investors. The majority of the team has a technical background, be it in engineering, physics, math or computer science with many years of experience in the financial sector. You could also see us as a tech company that's focused on developing short-term trading algorithms and the systematic trading thereof. All our algorithms and the entire infrastructure have been developed by ourselves. Technology gets more important

if you focus on short-term trading patterns and hence, we also had and still have to invest a lot in our infrastructure. The solid and highly scalable infrastructure allows us to attract and integrate also new quant talents with great systematic investment strategies.

We have been around now for seven years and have been trading our own fund for six years.

Daniel von Allmen
Progressive Capital

My name is Daniel von Allmen. I am Chief Investment Officer and Chairman of Progressive Capital. Progressive Capital was founded in 2001 and currently runs two business lines. One is managed futures, mainly trend following, and the second one is what we call “niche alternatives.”

Initially, that was more like a hedge fund of funds business, but we have evolved from that model and we are now allocating more towards co-investments and direct investments. We moved to a niche alternative multi strategy approach; litigation investments as an example. Typically, these niche alternatives are semi-liquid. We raise funds which have between one to five-year liquidity terms and hard lock-ups because we believe it is one of the only places left these days where you can generate attractive returns. Everything else which is liquid tends to be pretty expensive.

I was originally an options and futures trader at UBS and then joined LGT back in 1996, again, as options and futures trader. Then in 2001 I became responsible for CTA and global macro investments at LGT Capital Partners until in 2006 when I joined Progressive Capital.

Vincenzo Zinnà
Eurex

My name is Vincenzo (short Enzo) Zinnà, I have been working for Eurex four years now. Eurex is one of the largest derivatives exchanges, and I am in charge of sales for asset managers and banks for Switzerland, Austria, Spain and Italy. On our end we always see both sides and bring them together. We listen what the banks and asset managers needs are. Like this, we get ideas what kind of products are welcome in the market. Then we develop products and show it to the banks and the asset managers, asking them, if the product fits as we did it. We are then open to change it if needed.

I am in the derivatives market since more than 30 years, working also, among other positions, as Eurex Market Maker and in Derivatives Sales (Warrants, Structured Products and Eurex). This means that when I go to the asset managers or banks, I am really in a position to listen to their needs, and then I try to show them the right product. As example, when we discuss hedging strategies, I am not only able to show the usual, known strategies, but, for instance, also introduce them to hedge possibilities with the VSTOXX, so with our volatility future.

Markus Matuszek
M17 Capital Management

My name is Markus Matuszek. I am the founder, Managing Partner and Chief Investment Officer of M17 Capital Management. We launched earlier this year an equity long/short market neutral UCITS fund.

I was previously a Managing Partner at Gabelli & Partners, an affiliate of GAMCO – a large asset manager with around \$40 billion of AUM grown out of New York, but with offices around the globe. Similarly to that fund back then, we manage the M17 European Market Neutral Fund as a fundamental equity long/short strategy. Our investment approach is different insofar as the long and short book are profit centers in our concentrated portfolio of 30-60 positions. We spend a significant amount of time to understand investment opportunities and apply a disciplined, hypothesis-driven investment process which is why some investors put us in between the investment styles of activists and “traditional” equity long/short fund. In addition to that, we apply a proprietary position sizing approach as we reckon that this is a significant performance contributor.

I started my professional career a bit untypical as a McKinsey consultant. Over the years I have gotten to appreciate the structured, hypothesis-driven thinking which analyses the key elements in great detail. It probably gave me also a healthy level of skepticism – that’s why we typically are not just taking management’s or others’ guidance or presentations for granted but spend quite a bit of time on primary research.

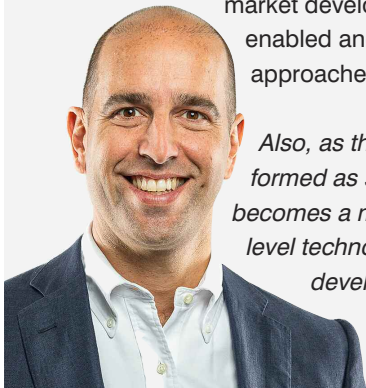
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Matthias Knab

We have a very interesting mix of quant managers and then Daniel as a fund of funds investing also in some of the more illiquid, niche strategies. This is actually a reflection of the changes in active fund management. I wonder if you can share from your perspective as asset managers what changes you are seeing in the markets, also from a business perspective, right now.

Eduardo Montes: With regards to the mix of quantitative managers here today, I think this is both a function of the general market development and the location for this Roundtable discussion. Technology and data availability have enabled and stimulated the development of more quantitative asset management business and investment approaches.



Also, as the quant industry moves away from the traditional times when systematic managers used be formed as spinoffs of banks' trading desks to now more diverse technology driven players, Switzerland becomes a more prominent place as a place to set up of such businesses. The concentration of both high-level technology institutes and of significant pools of capital to be allocated play key roles in this development.

Ivan Popovic: The recent volatility spikes in October 2018 should actually make us remember again that the volatility we had observed in the past few years was quite low in historical terms. One of the main drivers for this was clearly the easy monetary policies across the globe.

When we started to develop our systematic trading strategy in 2009, we clearly had a different volatility regime, looking backwards, compared to what we all could observe from 2010 onwards. Sure, we have had some spikes in 2011, 2015 and in February, October 2018, but the volatility levels came down quickly again.

However, this low volatility regime with fairly limited dispersion during the last six years was actually not an ideal environment for us. It is really hard to differentiate if markets just go up and everyone seems to make money fairly easily. So why should anyone buy hedge funds at all? However, this might change going forward, given the recent events this October in combination with a change in tune at the central banks. We could already see an effect in the US since the beginning of this year when the Fed leadership changed the tune. *Our systematic strategies in the US started to work much better than in the previous years.*

Due to the perceived underperformance of hedge funds and the fact that illiquid asset classes like PE, private debt and real estate have had a good run in the last 10 years, many alternative investors have turned to those asset classes and have been moving away from hedge funds.

However, if you invested in private equity a couple years ago or just recently, you probably had to pay too high prices, given the level of asset prices. This will translate in disappointing returns in a couple years down the road which won't match up with the performance of the vintage years people were using to make their investment decision upon. So, I think illiquid assets have been a great story and indeed the results have been great over the last couple of years. But given the high entry prices the recent vintage years will most probably disappoint and people will realize that only in a couple years from now.



Daniel von Allmen: I agree that private equity is too expensive, with far too much dry powder. We are talking about more than a trillion dollars waiting to be deployed in private equity. The larger private equity investments are now valued at 14 times EBITDA, so this is definitely not a great time to buy private equity, I think. But if you talk to clients, they are not really attracted to hedge funds, neither to quants or trend followers, but they love private equity.



People tend to lose sight that assets move in cycles – we have always experienced cycles and we are just experiencing another one, being actually pretty close to the end of that cycle.

Right now it is quantitative tightening that is setting the pace and the direction. That is the reason we launched these semi-liquid niche alternative products because we believe that you shouldn't invest in private equity at this point, but rather invest in non-correlated semi-liquid investments to harvest illiquidity premium in niche markets. And why is this illiquidity premium very high? Because a large portion of all money being invested is going to passive ETFs, thus demanding liquid investments. Possibly non-correlated semi-liquid investments are sort of the only area in the market where there is still value left. I consider myself to be a value and contrarian investor and therefore I am not interested in private equity at this point of the cycle.

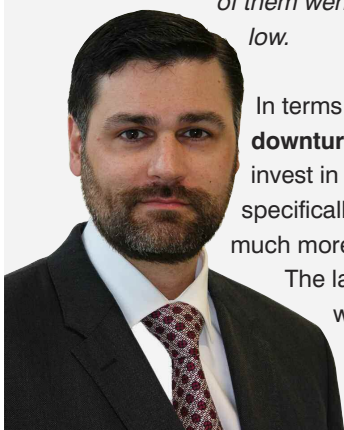
Vincenzo Zinnà: It is interesting to me as it seems you have the same tasks like us in the exchange listed derivatives space.

When do a lot of people usually hedge their portfolio? They hedge it after the market went down 5% to 10%, but then it usually is too expensive, as volatility went up. Generally, when hedging a portfolio, you should not do it when it's down 10%. If you nevertheless hedge it at this time, it could be worth selling calls – to have a better hedge, even in-the-money calls.

So in a way we are facing a similar situation talking to clients and investors, you on the hedge fund side and me on the exchange side.



Markus Matuszek: *When I am on the road talking to investors, my impression is that they are feeling a much higher degree of uncertainty than in previous years. Equity multiples are on the upper end, despite the recent October/November corrections; fixed income suffers from gradual quantitative tightening and the reversal of asset purchase programs by central banks; real estate and private equity are in their late stages while investors' required returns cannot really be much more reduced. Many of them went into the private debt because they think that returns are safe there as long as NPL levels remain low.*



In terms of the liquid space I do sense that **many investors hope to be prepared for a possible downturn** – be that by keeping higher cash levels or having lined up more defensive strategies they can invest in quickly in case a market correction is materializing beyond the recent corrections. For us specifically I have noticed that since volatility levels start to get back to long-term levels, investors inquire much more about how deep and fundamental our research is - as well as how our risk management works.

The last 5-10 years with booming markets allowed fund managers to relax on that end – to a degree where some probably cut corners and saved the expense of hedging to improve their funds' performance. I do believe however that months like October and November become more

common, especially once all major central banks remove the excess liquidity in the market and increase interest rates.

All in all, fund managers as well as allocators need to get used to the historically normal market conditions. On the positive side, I do think that passive and tracking strategies will be facing more challenging times and that proper active management will be more appreciated.

Daniel von Allmen: I think we are in a very, very special situation. For 30 years, interest rates have come down, and, as Markus pointed out, basically **most money managers these days have never experienced that when equity markets go down, that maybe they will lose on the bond and the fixed income allocation too.** This has never happened in the last 30 years, so in a way we are in uncharted territory.

We don't have the Holy Grail how to solve the problem, but I think the first step is to be aware of this potential risk set-up in a common balanced portfolio. And what worries me most about the markets is not even related to the equity market valuation.

What worries me is that over the last five years, a lot of fixed income investments have gone further out on the risk spectrum, into high yield, to leveraged loans, also called junk loans, into emerging market debt, and private debt. I think the wake-up call will be here when people won't be asking questions like, "Will I get 1% or 2% on that investment?", but rather ask, "Will I actually get my money back from that fixed income investment?"



Dr. Christian Kurz: I would like to add a comment on the private debt market. I totally agree with your views.

Some of the things I have seen at my previous job within the pension fund segment were pretty unbelievable. If you'd actually take a closer look at what the providers in the private debt area are getting away with.

You may see presentations stating, that the private debt segment has lower default rates in comparison to emerging markets government bonds, or corporate high yield bonds and that they have higher recovery rates. And then, when you check the footnotes, you realize that they refer only to their "private" and of course biased and limited data set. This is quite misleading, as the private debt market is not public, and you have very limited and short history of data available.

Investors are pressed by the low interest rate yields around the globe, and so they move more and more into the private debt segment and they just seem to buy more or less anything providing some yield, without actually considering what they will really be adding to their portfolio.

Danny also mentioned ETFs and the flow of passive money. This is one of the biggest structural changes we have seen since 2008-2009 just considering the huge inflows and how prevalent indexing has become, especially in the Swiss pension fund system. Even within the CHF 950 billion large Swiss Pension Fund system approximately 80% to 85% of the equity allocation are passively managed.



Markus Matuszek: Sorry for interrupting, but I have a question for Christian. **What about the power of consultants?** I'm not blaming anyone here but what I see is that pension funds are extremely consultant-driven. Switzerland and the UK are going very much in the same direction, other countries as well.

The consultants say that the only thing which matters to them is a low TER, oftentimes because that is the one factor the consultants can be made responsible for as they are not and don't want to be responsible for the performance of funds they recommend. Do you see this attitude trickling further down? I would think that at least the disregard for performance is problematic.



Dr. Christian Kurz: I totally agree that this is one of the biggest issues, and from what I have seen from the side of the large consultants in Switzerland is that the focus on TER is the key.



Their message is that "active managers are not beating the benchmark net of cost". For long-only benchmark oriented active managers the empirical results confirm this.

Assuming a normal contribution - 50% outperforming and 50% underperforming the market - given the billion's consultants navigating around the globe, shouldn't it be their job to be looking for the managers who are able to beat the market?

As we mentioned before, with so many investors now having their money invested into products replicating indices that means there are major risks in the system, but also, on the other side, providing big opportunities for many active managers.

Matthias Knab

I was just in the US where I had an interesting conversation with a very senior allocator. He started his career in the 1980s at a large public pension fund which was also a pioneer allocating to alternative investments.

His take was that the best way to measure the consultants' respective track records, and value add, is to compare the percentage of the consultants clients who are running a surplus to those who are running a deficit.

Interestingly, the consultants try to benchmark everything, but a question that is left here is: Who is benchmarking the consultants?

Sebastian Schaefer: Obviously we have had fantastic years since the financial crisis for most asset classes. Investors love that environment. **You shoot in the sky and you always hit a bird.** And that's in general also a great environment to set up businesses, set up funds, set up new strategies.

Once people have digested a crisis, there's demand for new things. And so, when you now look at many managers and funds in the industry, there are indeed many managers and funds which don't have a 2008 track record. Their total return might not be as good as equity indices since 2009, which is the issue that alternatives/hedge funds continue to have in the eye of the public. The unsophisticated investors continue to compare an equity index to a hedge fund index, forgetting volatility levels, forgetting drawdown expectations, forgetting overall strategy or asset class associated risks but also forgetting that hedge fund indices are not representative for returns investors can actually get from hedge funds. The opportunity to shine for alternative comes when the current phase comes to an end, which is probably in the next one to three years.

If you look at equity annualized returns – and let's be generous and include two years ahead of a crisis and then the year of the crisis, instead of just looking at equity returns in the year of a crisis – you will still have negative equity returns of about -7% annualized over those three years, versus equity-focused hedge fund portfolios, if put together wisely, having done +16-17% annualized over such a three-year time period.

What I am trying to say is, that even if you get the timing a bit wrong (as in 2 years too early), and you don't call the next negative year for equities on time, you can still make more money with a well structured hedge fund portfolio than you could with a long only equity portfolio. So, the opportunity for investors is to do more alternatives in the environment we are in now, and for alternative managers to finally prove again their worth by being better than long only benchmarks, and potentially also private equity, which everybody seems to love so much these days, despite its illiquidity and 2/20 structures.

Cyclical investments will be causing issues when the cycle starts turning and private equity is cyclical as well, no doubt about it. The visible demand patterns currently are actually supporting my thesis here. It's quite evident in the industry that there is demand for equity replacement, for fixed income replacement, and for more alternative allocations because people realize that we have had great fixed income markets for 30 years and great equity markets for 10 years, and now we need to look at other options. The Japanese might look at that differently and say, "We are pretty much where we are at 20 years ago, right? So, not much has happened". But that is a different issue to worry about.

Therefore, in my view, for investors a lot will depend on how they will be working on their asset allocation going forward. Will your loss protections play out? How can you replace exposure via different instruments in order to survive with the asset allocation in the years to come? Consultants might not see or go into those questions because that would require them to change their viewpoints on many things. There are good consultants, there are bad consultants, as with anything.

Passive investors will probably feel the pain more. What has happened in 2018 so far might just be the tiny beginning of a lot more to come. Being flat for the year or slightly positive in the S&P is not much of a disaster, even if you moved up your equity allocation as a pension fund.

But the pain comes when you're -3%, -4% in fixed income, and then it turns into twice that, and equities are adding another -10%+ to it. And then, where is that diversification you bet on coming from? The task for the alternatives industry is to deliver that low correlation and offer investors a return when all their other asset classes will probably fail to give them the return they need – not expect, but need, and that is again institutional money needing say 5-8% to be able to pay what they need to pay, and I think that will be very challenging.



Vincenzo Zinnà: Sebastian, you were looking at a three year time horizon in your market scenario, but I also think the institutional investors are more looking at a 10 years' time horizon, and so the question here is then how will equities look like in 10 years versus hedge funds?



Then my second question is related to my experience which I sometimes face when I present VSTOXX volatility futures to asset managers. They say, "Hey, I get it, the idea is good, but I can't explain it to the management. So, I can't buy it."

How do you actually sell your alternative investment? Do you have a similar challenge?

Sebastian Schaefer: The three-year time horizon is really just to illustrate when people say, "I don't need to buy now into a downside protection strategy, for example, because I know when the crisis will happen!"

There are always smart people in the industry to say, "This time I know it!" or, "Last time I knew it!" Hard to prove, but easy to say it. And that's what the thinking here is, to be generous and give them two years of lead time and say, "All right, if you think equity markets will continue to be good, you might be right for the next two years. But you might be wrong in the third year." If we now calculate your annualized return across those three years – which include the benefit of doubt with the two positive years – you would still be negative 7%.

So, the point here is that the **timing is not that relevant**. You don't really have to think about or make predictions if the crisis will happen next year or in two years or in three years or may be Q1 next year. It's not that relevant because the returns you can make in the next one to two years are not going to help you much if you don't do anything about the potential 3rd year. And therefore, you may want to think of changing your asset allocation now. You might have two years to work on the change, or only six months. But I would not really recommend saying to investors, "Don't do anything now and just wait until you are 3 months away from a market crash," because A, you might be wrong or B, you might get the timing a bit wrong.

Regarding your second question, how do you sell alternatives, how do you explain them to people, I think there is an easy way and a complicated way to sell alternatives.

At my previous employer where we had 140 salespeople just selling hedge funds, and I think it was the most structured hedge fund sales organization that the world had experienced before the banks entered the market place and changed from being clients of ours to competitors. We were often surprised how easy your story needs to be for people to understand what you are trying to tell them.

And even with that easy story, they come back with three to six months later and say, "Tell me again, how does that work?" We saw this on every level – IFAs, family offices and pensions or other institutional investors,

So, the trick to simplify a story, to make it explainable and understandable to a client to the point where they see, "Okay, I know how that works. I know why it works and I can see how I can fit that into my portfolio" which often is the biggest issue nowadays, right!? How often do then questions come up such as, "Do you have that as a UCITs? Do you have this or that for us? Is that tax efficient for us or not? How can our clients from this segment of this other business unit invest in it? Can our European clients invest?" Thanks to politics and regulations, all of that has become a lot more complicated.

Some like the complicated stories. I think the easier, the better. If the numbers speak for themselves, it's the easiest job in the world.



Daniel von Allmen:

But let me ask, do the numbers speak for themselves? Have hedge funds delivered over the last 10 years or not?

Sebastian Schaefer: That was Danny asking the journalist question, right?

[laughter]

I think people got hedge fund analysis wrong, very wrong. Our industry has, say 12,000 funds, and so unfortunately, also in hedge funds, people have gotten used to look at indices. So, when people ask, “How is Germany doing,” they then look at the DAX. How is Europe doing? They look at the Euro Stoxx. How is America doing? They look at the S&P and the Russell. How are hedge funds doing? Well, let's look at the HFR or at the Barclay Index.

That makes little sense when you think about equities actually being correlated 85%. You try to diversify an equity portfolio and then end up with a great sounding diversification of country exposures but in the end, you are 90% correlated in a crisis that then takes you down 40% all together.

And in hedge funds, the progression from fund of funds investing, where investors needed to know very little about single funds, to now, skipping funds of funds and wanting to do everything themselves to save a few basis points, forces them to look at hedge fund asset allocation differently, and that's where they get it wrong.

Because a hedge fund single manager runs at say 15% volatility – nowadays it's less because institutions have changed our world. But let's say, 15 vol. If I now combine two or three hedge fund managers with different styles, I end up with a volatility of 7% on average. That's half of equities, and if I might end up with an annualized return of 8%, that's a Sharpe of 1.0+. Equities with the same 8% return but with a vol of 15 gives me a Sharpe of 0.5.

As most hedge fund indices will have one hundred plus minus managers in them, volatility will be very low at 2-4%. That's government bond-like, and they are comparing that to an equity index that has eight times the volatility and then say, “Hedge funds have underperformed.” Well, they have underperformed with an eighth of the risk.



So, if we allow us, as a hedge fund industry, to bring that risk level to an equity risk level, so that we are comparing apples with apples, and make that a Sharpe ratio of one again, which we know can be better with hedge funds, but let's just make it one – you'll be looking at a 16% annualized which is what the S&P has done in one of the greatest bull markets in history in the last 10 years.

In our industry, I believe it has always been about finding the best managers out there. Looking at a hedge fund index and say, “Hedge funds have underperformed,” I think makes a little sense.

Markus Matuszek:

I have another question for you. I was wondering if it has been your experience as well that the sales cycle for alternatives is getting longer and longer, irrespective of the investor type?

Do you see that as well from where you sit, or is that just kind of my narrow view on the world?

Sebastian Schaefer: I think there is a lot of choice for investors. And investors at the same time don't seem to have the capability or willingness to say no.

This is what happens then: You show them a strategy and they say, "Thanks. That's very interesting. Send me a presentation." And then you follow up two weeks later and you say, "What do you think? Should we start due diligence?" And they say, "Keep us informed for the next three to six months please", right? And six months later, you call and they say, "Yeah, we like it. Do you have that as a UCITS?" "No, but we're about to launch one." "Okay, call me when you launched it." Okay, you call them when you launched it because you think, hey, all these guys asked me for UCITS fund, so it must be something that I need to launch. And you launch it and then he says, "Great. So you do have a UCITS. What's the AUM?.... Ah, okay. Now, we need 100m. Call me when you got 100m. And a three years track record, by the way." You are then fighting the temptation to say, "Gee, you could have told me that three years ago." So, right, you can look at a lead time of three years because nobody ever told you "no", but always, "Yeah, maybe later."

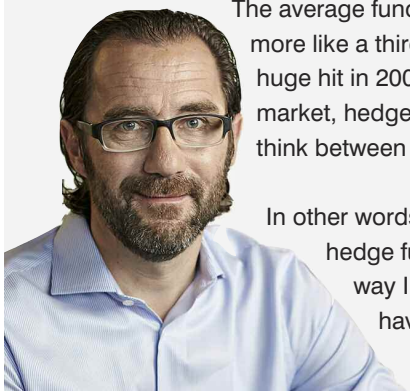
Like the proverbial beautiful girl in the corner of the bar, right? She doesn't send you away with, "Go away, I'm not interested." She just says, "Well, maybe darling. Why don't you come back tomorrow and buy me five more drinks?"

So, lead times could be very short if investors would be straightforward, this is probably what I'm trying to say. They could say, "I don't like your strategy," "You're too small," or, "You are underperforming our peer group." But when we look at the phase when an investor actually says, "Okay, we want to start due diligence," also then, the time horizon can differ a lot.

There are clients who can decide in four weeks – probably more the small allocators. There are clients who decide without even seeing your office or doing onsite due diligence, also larger ones are comfortable with this at times. And there are pension clients who take a year to do operational due diligence. Has that part become longer? Hard to say.



Daniel von Allmen: You mentioned before that a fund of funds has a risk which is one-eighth of the equity markets. But, we also have to self-reflect a little bit what the industry actually delivered.



The average fund of funds delivered minus 15% to minus 20% in 2008, so, it's not an eighth, it's probably more like a third or half of what the equity markets delivered. Also hedge funds as a group have taken a huge hit in 2008, and it took a long time until they really recovered. And of course, in the 2001/2002 bear market, hedge funds have done great. This performance followed the huge asset flows into hedge funds. I think between 1997 to 2007, hedge fund assets grew by 30% per year.

In other words, hedge funds also are a cycle, and probably a bit an overextended one. And now, selling hedge funds to pension funds is a tough one. Hedge funds are not on top of their priority list. In a way I can understand their reaction, because over the past 10 years on average hedge funds have not delivered. They have over promised and under delivered. That is our observation.

Sebastian Schaefer: Danny, in my assumptions before I was referring to a portfolio of hedge funds that's wisely put together, not the hedge funds of funds of 2008 which were often over-diversified with 100+ managers (we even had one back then which allocated to 220 managers), allocated to potentially illiquid strategies and with too high fees.

But I agree that you are right, WHEN we look at the averages, which is what the investment industry has done. And it's also easy to look at hedge fund statistics because we are so transparent.

We are more transparent than mutual funds, no? When you look at a hedge fund fact sheet, you get monthly figures. You could ask for daily figures, and we also show annualized volatility, annualized return, Sharpe Ratios, Sortino Ratios, max drawdowns etc.. Look at a mutual fund fact sheet from any large provider – you don't see those statistics. You see year-to-date, three-year, five-year. No volatility, rarely a Sharpe. No monthly returns.

And they celebrated five years after 2008 because they said – and I did hear that from them: “Now we will not have to include 2008 anymore from next year onwards. Our performance will look great again!”

The transparency in hedge funds is also different to the illiquid marketplace, but does it make sense to look at averages? I don't think so. It would be like saying, “The technology industry on average has only produced an IRR of X, so you should have invested in tech companies.” What's the point? It's always been about selecting investments out of a massive pool of opportunities.

Consultants' jobs should be selecting investments not averages. I don't think the right approach is saying, “Oh, the average of the hedge fund world has done 6%. So, if I do hedge funds now, I'll get 6% on average.” No! And neither do I believe it is correct to say “Hedge fund indices have done 6% and equities have done 12%, so hedge funds have underperformed”.

I think it's just wrong to look at averages, especially in an industry where you can get negative correlations between styles. You don't get negative correlations in equities between different markets – it's always highly correlated. There, it makes sense to speak of averages, but not in hedge funds.

I think European pensions do too little in hedge funds – just compare that with American pensions. Those have a lot higher allocations to hedge funds and alternatives in general. American family offices usually invest in hedge funds. They say, “I don't want equity markets and I don't want the illiquidity of other asset classes, so we surely (and often only) do hedge funds.”



Ivan Popovic: I agree with Christian's and Sebastian's previous statement about the TER. There is a large focus on optimizing the costs and as you just mentioned Sebastian, many people are also just looking at averages and some headline figures without really making a deeper analysis.

Sometimes I see investors just looking at performance figures without thinking about risk in terms of volatility and leverage. You rarely hear questions about risk adjusted returns or about the level of leverage which was used to achieve certain returns. Many people just simply compare returns month by month, which isn't really helpful to make real comparisons and get a grasp about the risks you were or will be exposed to.

I think, the lack of resources and specialization is one of the bigger issues and challenges we have in the institutional investor community at least here in Switzerland. Our strategies aren't that complex, but of course, the range of alternative strategies is quite wide. Hence, the institutional investors do need a



certain focus and special knowhow to get comfortable with what we do and to understand what role certain strategies might play in terms of the overall portfolio construction.

Portfolio construction is another area, which seems to be neglected quite often. You need to have a clear view or plan why you are buying something and what role a certain strategy shall have in the portfolio. Sometimes I get the impression that this process is not really done properly.

Markus Matuszek: I do agree that it is a lot of work but the good thing is that it offers you a differentiation point from other funds with the same headline strategy. It is then upon us to communicate these differences to the investor community and to show how these differences do make a positive impact on the return/risk profile of the fund.



Dr. Christian Kurz: I think Ivan's point about portfolio construction is important. **This point is often neglected.** You miss important return potential if investors decide to put 50% of their allocation into equities, using only the MSCI World, MSCI Emerging Markets and the SMI or some other index for the Swiss equity market (e.g. SPI). By just using the most common indices, you do not use the empirical analysis on equity specific risk premia which you could harvest in addition.

Education is obviously a bottleneck. When it comes to pension funds, the Swiss Milizsystem or citizen legislature may be an advantage or a disadvantage when laypeople end up being responsible for billions of pension assets just by virtue of being an employee of the company, but probably not having the right education for investing.

Often people do not have the right education to be thinking about, correlation or constructing the right portfolios and then on top some consultants are telling you, "You need to take care about the fees. The market is efficient, just use index products, that's it," so they are just reducing costs but not taking care about how investors could improve returns. Of course, the costs are important but it's just one side of the coin. It's cost and return that need to be considered.



Eduardo Montes: Coming back to the question, how do you sell alternative investments? Our role as managers is to keep going out and find the people that are interested in what we do.

At the end we can't fight should we get some push back or disinterest. We can only try to improve the ways to introduce investors to the concepts we work on. If they are looking at the returns adjusted to volatility, we do have a good message there, and so we need to bring it to them and try to convince them over time of the merits of our strategies.

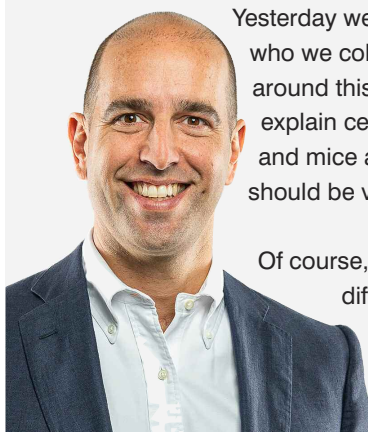
Regarding lead times, these can unfortunately be quite long. I think this is also a part of offering and selling very innovative strategies. We are creating these new ways of doing things, and this should include also creating new ways of describing how to invest. So, also in sales and marketing, constantly trying new approaches, learning from feedback, and continuously improving, is the way to go.



Vincenzo Zinnà:

I think there is an answer. The point is, do you have a clear narrative? For example, when you say long-short, what exactly do you mean? Are you long UBS and short Credit Suisse? Are you long-short Euro Stoxx against DAX or SMI against DAX and so on? Do you do it with futures? Do you use options?

Eduardo Montes: I think sales is always in some way about telling a story. In the sense of how you compose the narrative at the end. A big part of that is understanding what matters to the person you are speaking to.



Yesterday we had an event for prospective investors where we invited a professor in Artificial Intelligence who we collaborate with to share his insights in this technology and also to help separate hype from reality around this topic. The intention was to have a non-technical event and the audience was very diverse. To explain certain aspects around how we understand the process of learning Prof. Karbasi used pigeons and mice as an example. Although the topic can be seen as complex, the actual explanation can and should be very simple.

Of course, sometimes we just hit a wall. The allocator doesn't understand our message or has a very different view on things, which might go back to the fact that he or she might not be interested in our offering, but doesn't want to say anything, like Sebastian said before.

Matthias Knab

I met a fund manager who usually runs liquid funds, but at some point he also started a vehicle that needed to launch on a particular day.

He told me that he “never had such a blast selling something”, because to everybody he went to, he could come back and say, “Do you want it or you don’t want it? Are you in or out?”

The manager continued explaining that managers selling hedge funds or other open vehicles don’t typically ask like that, and even getting a clear no was great because then he knew and could focus on his next conversation.

That manager then jokingly continued saying that since that day he would be dreaming of selling private equity vehicles because having such a close date is wonderful and different to a fund that’s ever available.

Vincenzo Zinnà:

I have another question, who of you uses directly futures and/or options? Is anyone doing spread trading like Euro Stoxx against Stoxx or things like this?

Markus Matuszek:

We trade options, but not in pairs. Both our long and short book are profit centers in their own rights. Options are used for risk management purposes. So, I’m not doing pairs as you just described.

Ivan Popovic:

We do that. We trade pairs of futures and all kinds of pairs. We also trade volatility futures.

Vincenzo Zinnà:

This is interesting, because we as an exchange are always listening to the market. We already have a wide range of futures, and now we have been asked why we don’t trade spread futures, so DAX against Euro Stoxx, Bund against BTP and things like this. Would this be of interest for you?

Eduardo Montes:

We trade futures and many of the futures you offer. We also trade spreads, and maybe a calendar spread future makes sense in the volatility space, but I am not sure about a contract across different equity indices. There would probably be concerns with volume. I think we can construct the spreads on our own and the cost of doing that is not forbidding.

Matthias Knab

I’d like to go back to the question on education and how we can help investors understand and benefit from alternative investments in their portfolio construction, keeping in mind not only cost but other important aspects such as diversification and risks. What would you suggest is a procedure that would make sense? How should a Swiss pension really go about including alternatives?

Sebastian Schaefer: As a start, let's simply see what works on our side and then how that could be a general recommendation for an institution.

But first, some definitions. We do nothing but liquid alternative strategies. Now, that does not necessarily include what people nowadays associate when they hear liquid alternatives, because that phrase has been reused at least three times in the last 10 years.

When I launched Green Shoots, liquid alternatives was every alternative product with good liquidity because we just came out of a crisis where illiquidity had hit some hedge fund investors into the face. Next, liquid alternatives became NewCITS, so alternative investment strategies in UCITS wrappers, and I think now, liquid alternatives is also factor investing. So, God knows what people think when they hear liquid alternatives. The amount of choices they can make and the combinations they can choose for their own portfolios and different set ups due to geographical differences, regulatory differences, and return targets they need to achieve, are enormous.

Why we are good at what we do is because I think we have that focus, we are very deep in terms of knowledge when it comes to those topics and strategies.

And I think institutions need to either specialize or find an entity that can help them with the different building blocks. Private equity? Have a specialist for that. Equities? Go with a specialist. Factor investing, or hedge funds – get your specialists. One mistake I can see investors doing is just having one consultant to get it all covered, but I believe there isn't a specialist who is good at everything.

I think that is where some work needs to be put in by some institutions, and family offices as well. Some family offices have one investment person, some have 10, but the specialization needs to be there so that they can make good decisions in the different sectors they need and should allocate to.



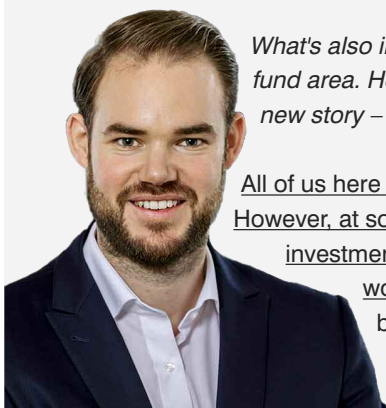
Dr. Christian Kurz: Because it's so fundamental and relevant, I'd like to repeat here Sebastian's earlier point to avoid looking at just averages when you want to invest in hedge funds.

But even if you look at averages, which are now weaker than they had been before, **maybe it is imprudent to skip alternatives or hedge funds per se.** I also agree that specialization is important – you shouldn't invest in the average as you shouldn't just buy just one hedge fund, but use more of a building block approach when creating portfolios.

Most of the Swiss institutional investors don't have the expertise when it comes to hedge funds. And when they invest in the alternative space, they moved into private equity or private debt.

What's also interesting is that, at least in Switzerland, most of the consultants are not active in the hedge fund area. However, having done the cost savings story, now some consultants have started looking for a new story – alternative investments.

All of us here are arguing for the same point: investing should be based on expertise and specialization. However, at some of the Swiss pensions running up to one billion or more, there isn't one single full-time investment professional working exclusively for the pension fund, but only regular company employees working for the pension fund on the side. Of course, how should they know the difference between the different liquid and illiquid alternative strategies or derivatives?



What is the solution? Again, they either need more professionals internally, or, if they do not have the capacity or are not willing to set up the capacities internally, they need professionals on the external side. If only employees are part of the trust board, they can't do proper due diligence either.

Eduardo Montes: *These are good points, and just looking at the whole situation again, at least here in Switzerland and potentially in other regions as well, I think we should also ask the question, why are these specialists not there? There's a reason why they don't have the specialized investment professional or why they don't make the analysis in the way we believe might be more appropriate. Or, maybe the mandate isn't properly formulated or understood. Maybe the responsible people are not that interested in investing in more sophisticated strategies. Or maybe we on our side are trying to push something that is not yet part of the big picture mandate of the investor?*

Looking at other geographies such as the US where you can see larger allocations to hedge funds and alternative investments, maybe investors there at some point did the internal search and asked, "What could we do differently? What is our mandate? How much return do we want to achieve for the risk we are willing to take?"

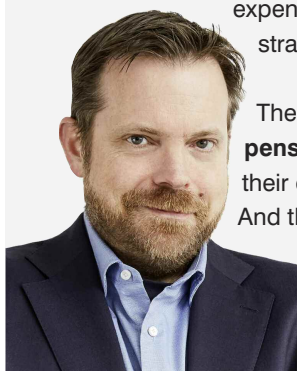
What I am saying here is that the push for better investing shouldn't be coming only from us, from the bottom up, so to speak. There eventually needs to be a broader discussion. And maybe, if such discussion becomes more open, we will be a part of it. Why are institutional investors sometimes reluctant to think in the way we do?

Of course, allocators like pension funds often need to publish their total expense ratio. If then there's a performance fee in there, it can get very volatile and potentially shine a negative light on them. Either we decide not to charge performance fee, or the investor's mandate has to focus on net return after fees adjusted to risk.



Ivan Popovic: *I think that the public pension funds spend a lot of energy to reduce costs which does not necessarily mean that you improve the net returns at the same time.*

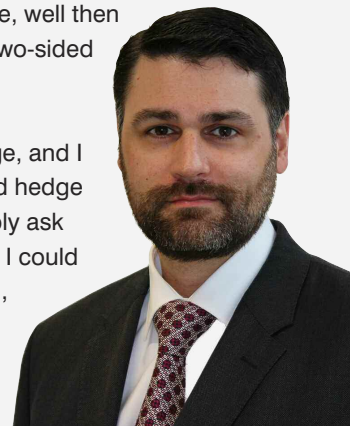
The main focus has been rather on reducing costs which is also the reason why these institutional investors can't hire expensive people who could do the type of analysis needed to construct portfolios with more complex strategies.



There are other examples how it could be done in a presumably better way. If you speak to **Canadian pension funds** for example, you are impressed by the people sitting on the other side. Sometimes they ran their own funds, and when you talk to them you realize, "Wow, they understand exactly what we are doing." And the impressive investment results of the Canadian pension funds justify the cost of having those people and invest in more expensive strategies. There you see the focus on the net returns and not on just optimizing the costs.

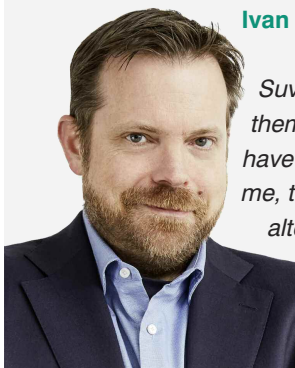
Markus Matuszek: Let me be a little bit contrarian here. This reminds me of my McKinsey days where the consultant comes in and basically says, “Why is management not smarter and why has management not done this or that? It is obvious what should be done”. But if you think about it, it is the consultant who has to provide in an objective manner options or an assessment of them and then convince the decision-maker. If consultants are not able to convince, well then either their analysis or their communication is not good enough. So maybe it's a more complex, two-sided issue we're talking about here.

I liked Eduardo's comment about the professor as an example how to simplify a complex message, and I believe that's also relevant for us, particularly when at some point markets will be falling again and hedge funds or alternatives will hopefully be doing well. In such an environment, all investors will probably ask themselves how they have to adapt to keep making money for their clients. One of the first things I could imagine is that they start **hiring specialists who are experts in alternative strategies**. But again, that's only because they will have that pressure, which wasn't really there for the last 10 years.



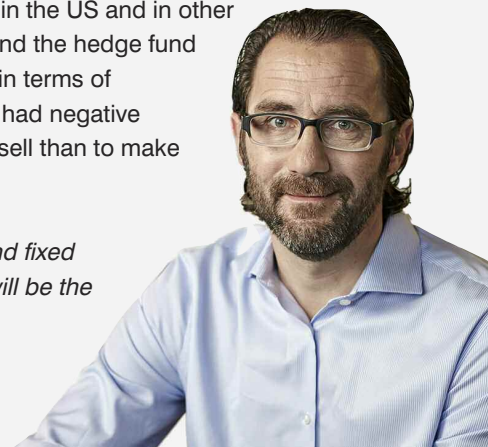
Ivan Popovic: We have actually a great example of that here in Switzerland.

Suva, the Swiss National Accident Insurance Fund, has built up large alternative investment teams. I see them as a role model for the Swiss institutional investment sector. They hired teams many years ago that have helped them invest in illiquid assets and in hedge funds. They even run their own CTA strategies. For me, this is a role model that is also forward thinking and better than just saying, “Oh no, we don't invest in alternatives – they are too expensive”. I am sure like in the case of the Canadian Pension Funds they will show better net investment returns in the long run, on absolute but also on risk-adjusted basis.



Daniel von Allmen: Just from a fund raising perspective, having done this in Switzerland over the last 17 years, I agree that raising money here for alternative strategies hasn't been easy. There is a lot of flows in the US and in other areas, but unfortunately, Switzerland was hit particularly hard with the Madoff case and the hedge fund crisis in 2008 – harder than Germany, for example, because Switzerland was ahead in terms of allocating to hedge funds versus Germany. There are some Swiss institutions which had negative experiences with hedge funds and exited, and to bring them back is a much harder sell than to make the initial pitch.

I agree that there is an opportunity again going forward – when equity, real estate and fixed income will show negative performance. It will certainly not be easy. However, that will be the time to shine for our industry.



Sebastian Schaefer:

I agree, and again, a lot will depend on your skilled portfolio construction and fund selection, which needs specialist know how. You just shouldn't go with averages here, and make sure you have a sound risk framework.

Looking at returns, leveraging equity four to five times in a bull market, for sure, your return is going to be sweet in private equity. But being five times levered in a crisis, I don't know how sweet that will be.

Matthias Knab

Before we end, let's also look at any new products or innovations you have launched or are working on.

Vincenzo Zinnà:

Before I start with some of our new products, let me come back and add something to what I said about spread trading. The spread I spoke about was more one index against the other, like BTP against Bund.

We then also have a project on blockchain.

Dr. Christian Kurz:

Sorry to interrupt, are you talking about bringing futures on specific cryptocurrencies, or more about using the blockchain technology as part of your exchange infrastructure or processes?

Vincenzo Zinnà:

Until now, we are open for all, so decisions have not been made yet, The whole segment is on a project phase until now.

Another thing that we talked about today was factor investing. We have **six factor futures on iSTOXX**, so factors like value, volatility, etc., and we have four factor futures on the MSCI. The MSCI ones are US factors and iSTOXX are European.

Dr. Christian Kurz:

I wonder, are these individual factors such as momentum, value, quality, yields etc., or do you also have it on the MSCI World multifactor?

Vincenzo Zinnà:

That is a good question, so right now we do the single factors in our factor futures, not the multifactor. Would you be interested in the multi?

Markus Matuszek:

It's all about timing. You might be so wrong or so right on a single factor, but not with the timing of it. So a multi-factor approach probably averages that out or at least should have better risk characteristics.

Dr. Christian Kurz:

It depends on the methodology you're using to weigh the different factors in a portfolio context.

Yes Enzo, it would be much more convenient if there would be futures on multifactor indices available to hedge the risk instead of selling and re-buying the indices and other instruments all the time.

Vincenzo Zinnà: Yes it is right Christian, until now you have to buy value and sell volatility to avoid the market risk. I will ask internally if we will launch multifactor futures.

Another thing we have recently done (10th Dec 2018) was actually **extending our trading hours**, so to Asian hours. The demand has come from Asia obviously, and so that means that we start trading our benchmark products, so the DAX, Mini-DAX, Euro STOXX50, 90 MSCI Futures, Bund, BOBL, Schatz and Buxl will be tradable from one o'clock in the morning until 10 o'clock in the night.

In plus we are on the following projects



- **Pro-Rata Matching**

Improve **on-book** liquidity with less speed-sensitive price/size matching for all single-name equity options products

- **Passive Liquidity Protection**

Improve **on-book** spread with speed protection for resting orders/quotes against aggressive order flow

- **On-request Crossing Mechanism (Improve)**

Facilitate **on-book** price improvement with on-request crossing auction

- **Request-for-Quote Mechanism (Eurex Enlight)**

Facilitate **off-book** price and liquidity discovery with selective RfQ mechanism

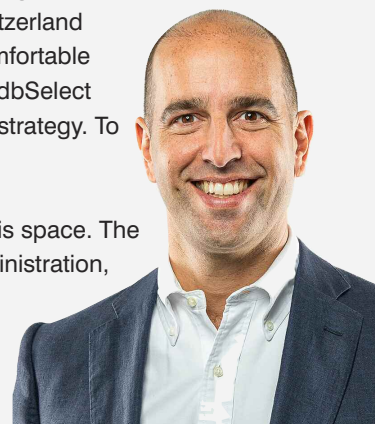
Eduardo Montes: I have a few comments on innovation. We are very keen on researching new investment approaches and trying to think of new ways of further improving the way we do things. In this context, I always go through the **four areas that are relevant for a quantitative asset management company** like us.

*First is **research**. We have been working on using Machine Learning for the last few years. We already have two strategies using this technology, and this is an area that we like to continue exploring. The use of Machine Learning is in line with how we look for patterns in the data as a driver for our investing.*

Other areas of development are around strategies that have low exposure to traditional asset classes, approaches that exploit large market dislocations, and the expansion of our investment universe into other types of instruments.

After research, the second broad area is the **products** themselves. When I entered in the hedge fund industry, one would simply set up a fund and then run with it. Nowadays there's a lot more that you can do depending on the underlying you are trading, how liquid it is, and your investor's preference. For example, in Switzerland allocators are familiar with the concept of certificates or notes. In the US, CTA investors are comfortable with managed accounts and this is a major driver to introduce our strategy in that market. The dbSelect platform that we are a part of allows us to offer options and other investment structures on our strategy. To some investors these might be more attractive investment structures.

Enzo mentioned the blockchain earlier, and at our end we keep track of what's happening in this space. The blockchain technology could streamline many of the challenges in different areas such as administration, structuring and settlement. I think we are still very far from real industry solutions, but we are monitoring things, and actually there are a couple of companies here in Zurich and Zug that are starting to explore different possibilities using this technology for these purposes.



Third, on the **operational side**, we are constantly searching for opportunities to advance our automation, looking at companies we could partner with to improve the way we interact with exchanges, with brokers, and with clearing counterparts. This is also an ongoing effort, and there are a few smart solutions showing up in the horizon.

Fourth, on the **sales and marketing** side, as we discussed before, I believe creativity and innovation is also important in this area. This event in Artificial Intelligence that I mentioned earlier was something somebody recommended that we should do, and it was a big success in reaching out to people we had little contact with. Certainly, if you are an emerging manager and just calling people to talk about your strategy, at some point, you will hit the wall. Allowing for those kinds of conversations and interactions that are a bit more informal brings fresh air to the sales and marketing process.

Lastly, another thing we as asset managers could do more is to **exchange thoughts** with each other about non-core aspects of our businesses. Share impressions of service providers as well as thoughts on the business development in particular markets and on alternative investment structures. In fact, Ivan and I already spoke a few times about these topics. In general, there is too little exchange between managers.

Sometime innovation doesn't need to be a new technology, it just needs to be a new way of thinking something.

Ivan Popovic: There is a lot of noise about ML and AI. ML has become a new buzz word, but actually ML has been around for a while. Generally speaking ML is nothing else than computational statistics and many methodologies have been around for ages. However, what is different today is that you get more computer power and better data and there are great software packages which makes the application of these computational statistic methodologies much easier nowadays. Hence like many others we are also spending more time in applying these methods to the available data. The goal is to transform the data such that you see patterns or anomalies in the data that someone sitting just in front of a Bloomberg screen does not see.



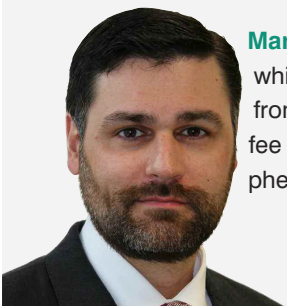
I think the ML space and its applications in short-term trading is clearly an area where we have spent more time on recently and where we have also been hiring more people.

Daniel von Allmen: We just launched a fund where we chose two trading advisors for the product. The new feature for the fund structure is that the two different managers are now **sharing a single high watermark**. This has been one of the old issues that haunt the end investor. It can be very frustrating if you pay a lot of performance fee to some of your underlying hedge funds, but the ones who lose money don't pay you back. At the end you pay performance fee but actually don't experience the desired performance on a portfolio level. The account could be flat or even negative, but you still paid out performance fee.

We now offer this additional fund with two managers sharing the high watermark and the fees, and we launched a fund of funds with four managers without charging additional fees because it is an "in-house fund of funds".

As we discussed, when the whole world is looking at TER, I think we have to find a response to that and to have a better alignment with the investors.





Markus Matuszek: You will remember that in the US we had this idea around a 1 or 30 fee schedule logic, which hasn't seen any traction in Europe where at least in the UCITS space it's quite difficult to incorporate from an operational standpoint, given UCITS funds typically offer daily liquidity. It remains to be seen if this fee structure gets incorporated by more and more funds in Europe or whether it remains purely a US phenomena.

Eduardo Montes:

We have offered a 1 or 20 fee structure for our managed accounts for many years now. It is relatively simple to set up this fee structure through managed accounts. We like the alignment of interest that such a structure provides.

Matthias Knab

Sebastian, at Green Shoots you work with many different managers, what do you see regarding investor demand?

Sebastian Schaefer: Let me add that despite our name, we are not focused on early stage managers only. We are size agnostic and actually also recommend to investors to be size agnostic when it comes to selecting managers. There will always be a sweet spot for clients but *I don't think size should play a role if businesses are run at an institutional level.*

Another trend we see, apart from a growing interest in less large managers, is the **increased interest in quantitative and systematic strategies** which I believe is also a result of the great experiences and the momentum we are having in technology in general. People feel more comfortable with algorithms in their lives and people think about technology more, and therefore I think it's become more normal to also accept systematic approaches in asset management. This hasn't always been the case, and I think that's great.

But let me give this a different spin here – if people would also look at asset management companies – alternative asset management firms and hedge funds – more like start up entrepreneurial businesses, which are privately owned, where young, highly intellectual and educated teams try to be as good as they can be, I think we would have a different buzz in our industry.

I don't think that we necessarily should ask for it, because that could also create **capacity issues** in a number of strategies, but more people should understand that our industry is also about entrepreneurs coming together and setting up companies and trying to beat indices, beat benchmarks, beat their peers and using more technology to do that.

So right now, we at SteppenWolf, are focused on developing more systematic strategies, finding new strategies which employ technology or look for combinations of certain strategies. *The good thing about systematic strategies is how you can analyze them – it is easier to see weaknesses in systematic strategies because you can know better when they will work and when they will not work. This*



then also makes it easier, from a portfolio perspective, to find something that works well when the other one doesn't work well. That is the multi-manager concept in the end.

If concepts like artificial intelligence and machine learning remain buzz words or if they will also transform into great performance, this is something we can only understand by looking at it from a manager to manager basis. As a side note, I find it fascinating how quickly such buzz words can become industry drivers like Blockchain and Bitcoin became buzz words and their own industry drivers last year. I think it's amazing to see how 8 billion people in the world can create such major momentum around buzz words very quickly.

So in our industry, the more relevant buzz words are artificial intelligence and machine learning as well as systematic investment strategies in general, which, as Ivan and Eduardo pointed out, have been around for a long time and have produced fantastic returns on a manager to manager basis level for quite some time.

I am actually glad that there is more interest in it now than there has ever been, despite the capacity issues it has already created with good managers no longer accepting new capital, which has also made our lives more challenging since whenever this happens we need to find a replacement. There are fantastic teams out there who run great strategies producing outstanding performance, with the ability to produce very good returns when equities will not. We are proud to be part of that movement and are supporting it. In a way, we're part of the buzz.



DON'T MISS OUT

ACTION REQUIRED

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 1.5 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 2.5 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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