



Opalesque Roundtable Series '19

HONG KONG

Opalesque Roundtable Series Sponsor:



Editor's Note

[Here's an interesting list of statements and predictions](#) dating back as far as 1990 about a halt or hard landing of China's economy, with the current tensions about tariffs just being the latest iteration.

While the real economic effect on trade hasn't been that big so far, the knock-on effect, the pessimism that it is causing, is real and is now also starting to affect various asset prices, especially the property market. China has not experienced a declining property market before, so it is anyone's guess as to how this plays out in the medium term.

However, the trade pressure put on China by the US may as well in the medium- and long-term turn out to be actually good for China. Joe Zhou from Ortus Capital says he sees signs: *"There is an intense debate among Chinese advisors and government officials alike about where China is heading as a country, and literally everyone is reflecting on the past 40 years of reform. I think the debate is unprecedented... I think China could go through a second stage of reform, thanks to the pressure from the United States, in terms of protection of intellectual properties and equal access into the markets by various enterprises, public, private, and foreign etc. I would say that there are a lot of things on the table right now, and we could actually be surprised by the developments because President Xi is a do-er, he can pull the trigger. So, from a western point of view, we could be positively surprised by the outcome of this debate and how China sets the course for her future."*

Of course, what Joe is talking about here is a secular shift that needs to happen and be integrated over many years. What we have seen since 2018 however is investors voting with their feet.

How is the Chinese government acting right now? China looks a lot different now than it did 10 years ago as debt levels have doubled. This time around it can't be about building another railway system – they already built it – the solution will have to come from other parts, and so this time private businesses come into focus. Across many ministries, the Chinese government has been promoting a lot of measures to support private enterprises. We hear there will be some new policy initiatives, for example tax cuts – maybe 25% tax cuts for corporate rather than for individuals. This shift in the Politburo's attention from state owned to private sector companies will obviously create some winners and losers.

The Opalesque 2019 Hong Kong Roundtable, sponsored by Societe Generale Prime Services, took place in Hong Kong with:

1. Brian Quartarolo, [CIO, Anahata Capital](#)
2. Gregory Davidson, [CIO, Windrose Investment Management](#)
3. Joe Zhou, Ph.D., [CIO & Executive Director, Ortus Capital](#)
4. Ted Chen, [CIO, About Capital Management](#)
5. Stephen Woodrow, [Director, Societe Generale Prime Services](#)

The group also discussed:

- Making money despite the crisis: FX, commodity arbitrage, macro (page 5, 6, 10, 15). Are easy stock pickings coming back? (page 20-21). Risk management (page 14-15)
- Is the CNY rate important to the overall financial system? (page 11). How the Stock Connects and MSCI are changing the world of investing. What's next for ChiNext? (page 8, 12, 18, 24-25)
- A new wave of privatization? (page 20-21). Outlook for commodities (page 22)
- How China is making new friends (page 10). Inside One Belt, One Road (page 22-24)
- Has the US already reached neutral rates, and how does this affect China? (page 13, 21)
- Is globalization dead? Why Trumpism, Brexit, etc. are all cut from the same cloth (page 15-17, 24)
- Investor demand for multi-strategy, CTA, Greater China long/short equity, and "anything that's uncorrelated" (page 24)

- Mainland Chinese investors a boon for alternative investment managers (page 25)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT):

Matthias Knab, Gregory Davidson, Stephen Woodrow
Ted Chen, Joe Zhou, Brian Quartarolo, Rebekah Pang

Introduction

Brian Quartarolo
Anahata Capital

Brian Quartarolo, Chief Investment Officer at Anahata Capital, an Asian Macro portfolio within Pilgrim Partners in Singapore. The three main asset classes we trade are FX, fixed income, and equities.

Joe Zhou
Ortus Capital Management

My name is Joe Zhou, I am the CIO of Ortus Capital Management. We trade primarily global FX strategies and also other asset classes, mostly global futures markets.

Ted Chen
About Capital Management

My name is Ted Chen, I am the founder and CIO of About Capital Management. We are a Pan-Asia focused equity fund with a core competency in fundamental equity long/short but complemented with opportunistic equity trading strategies to deliver uncorrelated and enhanced risk-adjusted absolute returns.

Gregory Davidson
Windrose Investment Management

Gregory Davidson, I am CIO of Windrose Investment Management (Asia) in Hong Kong. We are a commodity arbitrage fund; active across all global commodity markets in Asia, US, and Europe, but we are particularly focused on China. Our strategy trades all global commodity futures, FX as well as physical commodities.

Stephen Woodrow
Societe Generale

Stephen Woodrow, Prime Brokerage Sales, Societe Generale. I am responsible for the origination of new business for the Prime Platform in APAC across multiple asset classes and strategies.

This material reflects the analysis and opinions of the speakers and may differ from the opinions of Opalesque and/or the Roundtable sponsors. It is intended to be of general interest only and should not be construed as investment, legal, tax or accounting advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. This material also does not constitute an offer to sell or a solicitation of an offer to purchase any interest in any fund or investment vehicle.

The views expressed are those of the speakers and the comments, opinions and analyses are rendered as of 11th January 2019 and may change without notice. The speakers make no representation or warranty as to the accuracy of any views or information contained herein and expressly disclaim any obligation to revised or update such views or information. The information provided is not intended as a complete analysis of any subject discussed herein. Statements of fact are from sources considered to be reliable, but no representation or warranty is made as to their completeness or accuracy. Furthermore, any assumptions, assessments, estimates, projections or the like (collectively, "Statements") regarding future events or which are forward-looking in nature constitute only subjective views, outlooks or estimations, are based upon the speaker's expectations or beliefs, and involve inherent risks and uncertainties, many of which cannot be predicted or quantified. In light of these risks and uncertainties, there can be no assurance and no representation or warranty is given that these Statements are now or will prove in the future to be accurate or complete in any way.

Matthias Knab

There has been a lot going on in Asia and the global and emerging markets. Could you give us an update how your strategies are doing and how you would judge the opportunity set for your strategies going forward?

Brian Quartarolo: Sure. Let me start with a bit of an audit on what has happened in 2018. Investors came into 2018 with a view that Asia was going to have a pretty good year based on the secular macroeconomic theme around the continued rise of the Asian consumer. Global growth forecasts were pretty robust.

Towards the end of January, the market seemed to wake up to what Bob Lighthizer and the U.S. Trade Representative's Office had been plotting against China for the previous seven or eight months. Since then, there has been an increasing revelation among investors that the trade policies in America were changing fairly dramatically. This could not only endanger, but possibly destroy or certainly damage global supply and value chains. I think we have seen a fairly sizeable disinvestment in the region since then from global portfolio managers.

Most of us are probably grappling right now with the question of how much of this is priced. In other words, what is the impact that a 25% American tariff on \$505 billion worth of Chinese goods could make on their economy given a whopping \$14 trillion in annual output? We are talking about, as the Chinese have said, first round effects of 0.7 on GDP, which is not particularly outsized when you consider Chinese export shares are down 50% on the year, indices in China are down a fifth on the year, and the indices for H shares and Red Chips are down double digits on the year.

We've since had the G20 in Buenos Aires, where the table had been set with the measures the USTR want and China's plans to address them. The postponement of tariffs is positive and now needs to be replaced with a strong trade deal with more open markets and enforcement on vital issues in order to change the negative dynamic.

As far as what we are doing in Anahata, we tend to be relatively active, looking to target Sharpe Ratios as much as returns, and clearly over the last few months since we commenced activities there have been some opportunities to trade and we have been taking advantage of them.

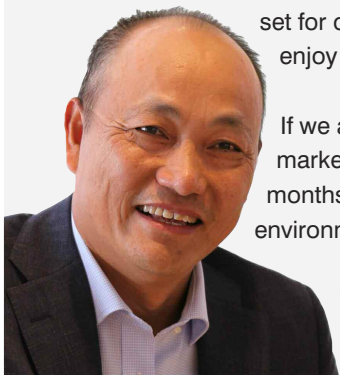
I would say that the news flow recently is quite negative and the trend is typically your friend, but again, going back to my earlier point, when we consider how much of this trade war is priced, one could easily posit that it may be overpriced relative to an expected outcome for a trade deal.



Joe Zhou: 2018 has been pretty good for us. We trade quantitative FX strategies mostly and the opportunity set for our space could be sometimes opposite of what is good for equity markets. I am not saying we enjoy the pain, but we certainly like the economic divergences out there.

If we are looking at the divergences between the US and the rest of the world, in terms of financial market performances and monetary policies, we see a growing presence of divergences in the past few months. This implies that **FX markets have become more predictable**, which for us is a good environment.

We do trade the Chinese currency. While not a big position by itself, the RMB obviously has impact



on all global currencies, as well as commodity and equity markets. So to some extent that's also a part of the story about divergences between China and the rest of the world which makes things more interesting for us.

Gregory Davidson: We run a commodity arbitrage fund, and about half of our exposure is actually in Mainland China. *We have access to the domestic Chinese markets, which very few do, and that gives us a lot of insight to what's actually happening on the macro level in China.*

We are not necessarily predictive on where market is going to go. We model a global equilibrium price and then buy or sell regional markets when they are overbought or oversold vis-à-vis the global price. The higher the volatility and the greater the divergence in the market, the better for us.

Commodities are a bit unique compared to the equity markets where for example, Chinese equities trade in Shanghai A shares and Hong Kong H shares and the pricing structure can stay out of balance indefinitely due to regulatory barriers. Commodity futures markets have an underlying physical product which can be delivered and taken up in different markets and thus convergence will happen by the movement of those physical goods in the medium term. As arbitrageurs, we thrive on volatility. The worst thing that could happen to us is actually having a nice peaceful market and nothing moving.

So for us, 2018 has actually been quite good. Our fund is new, we launched in July but here we are just repackaging a strategy which we have been running for the better part of almost two decades, into a new investment vehicle. As for our outlook going forward, and we are quite excited about the environment that's emerging now as we believe we can monetize on that.

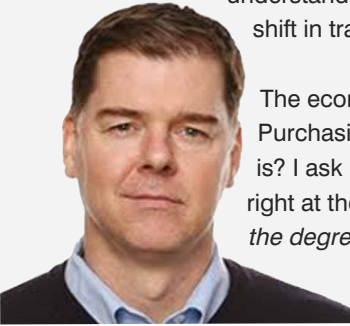
Going back to Brian's point on the real economic impact of the tariffs on trade, I agree that it's hasn't been that impactful on real activity much, but psychologically – and let me add that we do have an office in Shanghai where we are on the ground and deal with real Chinese people and companies all the time – there's a major impact. The pessimism we are seeing is nothing like anything we have seen before in all the years that I have been traveling in China. The Chinese took the Great Financial Crisis in stride as only really affecting the West. This is different for them.

So while the real economic effect on trade is actually not that big, the knock-on effect, the pessimism that it is causing, is real and is now also starting to affect various asset prices, especially the property market. As this starts to decline, we will see a negative wealth effect, which will eventually cause the consumer to stop spending.

China has not experienced a declining property market before so it is anyone's guess as to how this plays out in the medium term and how this may affect people's spending, but given how much this has driven Chinese consumer confidence and spending over recent years, we feel that effect could be considerable, and this ripple effect to the economy is just getting underway, so I don't think we have seen the full ramification of that. *Even though the equity markets might fully price tariffs in, maybe as overpriced, there is a lot more to come in the real economy where people are still very bearish and are expressing that bearishness in shorting the domestic futures of Chinese commodities.*



Brian Quartarolo: Greg, investors' sentiment is obvious, right? You just need to look at shares in a company like Li & Fung to understand who is in the crosshairs of the global supply chain problems that are coming from this technical shift in trade.

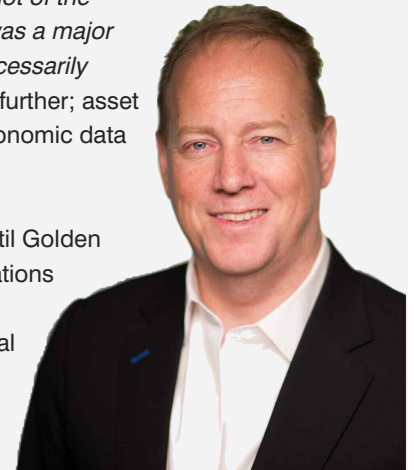


The economic sentiment has been less obvious. We don't see it so much in the China Manufacturing Purchasing Managers Indices (PMI), which are hovering around the boom-bust line. Why do you think this is? I ask because being embedded in the commodity markets where you are, you find yourself literally right at the beginning of the aforementioned chain. *Why do you think it is that the PMIs haven't come off to the degree we have seen the asset markets and the equity markets in particular?*

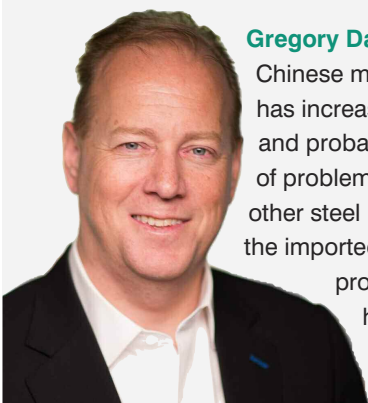
Gregory Davidson: We have seen this in economies before, for example in the US, where there can be a divergence of sentiment versus what the real economic output is, and such a divergence can last for a while. People can get very bearish while their own businesses are still turning over quite well because there are other things going on.

I think the Chinese business sentiment, at least toward the higher levels, has actually been depressed for a while, where some have stated that this started with the Chinese government anti-corruption campaign, I feel a lot of the sentiment changes came actually from fearing for their own fortunes and well-being which was a major driver in capital flight and push into global real estate over the last several years, and not necessarily directly from the businesses as a whole. But that will change as more things are developing further; asset prices are starting to come off which will then affect the bottom line; and thus show up in economic data eventually.

From the commodity standpoint, business has been quite good most of the year right up until Golden Week in early October. We have seen a noticeable shift in the last couple of months on valuations for various commodities in China. Imports are down; offshore inventory levels are starting to rise and global order books for a lot of the minors are drying up; eventually depressing global prices. So I think that is going to reflect into the PMI probably in the next couple of months.



Brian Quartarolo: So when Fortescue came out a few weeks ago and were saying how great things are in iron ore, they basically put the high into the markets, is that true?



Gregory Davidson: The high on iron ore has been a result of a combination of a curtailment of domestic Chinese mine production along with high steel margins due to environmental cutbacks at the mills, which has increased import demand and pricing for high purity ores. Pollution and air quality is awful this year, and probably still one of the biggest challenges that the Chinese face, so the Chinese try to solve this type of problem by telling industry they have to shut for a period of time. This factor has also been visible in other steel making products such as coking coal, where domestic Chinese material of poorer quality than the imported coal has been trading at record discount levels for most of the second half of the year as steel producers suck up the best material to produce steel as their margins have been fantastic and they have been easily able to afford the premiums for the higher qualities.

But that dynamic is changing as we speak as steel prices and hence margins are coming down sharply. The selloff is starting to be dramatic, so I don't think the mining sector's good time will last too much longer.

Brian Quartarolo: And the capacity reduction in that steel sector, would you say that's over now or still ongoing?

Gregory Davidson: Its continuing and will continue through Chinese New Year. In November 2018, China started putting restrictions on coal imports which has also impacted those prices. So even accounting for a lot of the supply disruptions that happened in 2018 in Australia, this is factored in, and prices will adjust.

Joe Zhou: I noticed that recently, in a rather unprecedented way, **the Chinese government across many ministries has been promoting a lot of measures to support private enterprises.** The government seems keenly aware of a slowdown or the possibility of a slowdown in the economy, and they are taking a lot of measures lately which could possibly even extend to tax cuts and other support to the supply chain.

In general, when you look at a horizon of one to two years, I believe it will show some effect if the government continues to support the economy and the market. I would think that the policy is helping the economy, the private sector, by trying to at least stop the downward spiral in sentiment that had developed. So I think this is something that we should pay a lot of attention to.

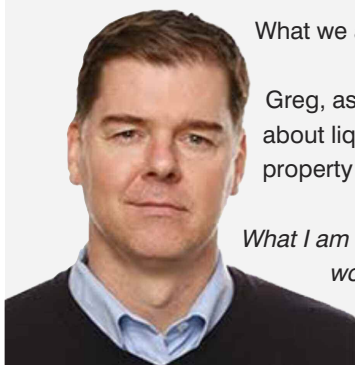


Brian Quartarolo: The shift in the Politburo's attention from state owned to private sector companies will obviously create some winners and losers. You will be seeing the winners through the ChiNext if the smaller, emerging companies are the ones who are going to get the credit to grow. The directive from the regulator to push two-thirds of the new credit into the private sector will fuel that growth, there is no doubt about that. The beauty of a command economy is that they can basically push the money wherever they want to. The legacy costs, debt overhang, etc. are still on China Inc. as we know it, which is by and large still the state owned enterprises.

What we are seeing is a degree of uncertainty about what they will look like over the longer term.

Greg, as you would know from how the commodity cycle is unique to how China trades, it tends to be all about liquidity. When the liquidity is robust, this then leaks into all sorts of different assets, whether it be property or outright commodities, equities, et cetera.

What I am wondering is whether the reaction function at this time, is a bit different. I don't know, but I am wondering if it's different, because if you and I are sitting at an SOE and we know that the available



credit to us next year is going to be limited, and that there will be a lot more competition on what we can get from the banks, we are going to be quite uncertain about what our cutbacks and investment plans will look like as we don't know how we are going to finance that. I believe those doubts are evidenced in the major rally seen in Chinese sovereign bonds over 2018.

And when you look across the asset classes, you see that same uncertainty, fear, doubt in high yield versus IG, really across Asia. Those spreads have widened out to their broadest levels of the year in late 2018 and I think that is an important dilemma for everyone. When we look at the fall in bond yields, especially with the divergence in credit yields, the liquidity is all going into safety. The yield spreads on credit are showing us that there is risk of impairment there.

Joe Zhou: I feel that the trade pressure put on China by the US will probably in the medium- and long-term turn out to be actually good for China.

I see signs. There is an intense debate among Chinese advisors and government officials alike about where China is heading as a country and literally everyone is reflecting on the past 40 years of reform. I think the debate is unprecedented, there's a very open debate in the media and certainly in a lot of forums.

I think China could go through a second stage of reform, thanks to the pressure from the United States, in terms of protection of intellectual properties and equal access into the markets by various enterprises, public, private, and foreign etc. I would say that there are a lot of things on the table right now, and we could actually be surprised by the developments because President Xi is a do-er, he can pull the trigger. So, from a western point of view, we could be positively surprised by the outcome of this debate and how China sets the course for her future.

Obviously, we are in the business of investing, so analyzing the policy reaction function is probably the greatest source of alpha for all of us, especially in terms of directional bets. Summing up, I think there is a high probability that China is moving in the right direction out of this trade debate and then there will be a positive momentum for everybody, China and the rest of the world alike.



Brian Quartarolo:

Joe, what you are talking about is a secular shift that needs to happen and be integrated over many, many years. What we have seen this year however is investors voting with their feet. In other words, they are incredibly uncertain about what the sort of short to medium term outcomes are likely to be.

When do you think that twist happens? When do you think we will start to see the investor attitude shift to support the assertion you just made?

Joe Zhou: It could be very fast. As I said, this government, in some way similar to the Trump administration, is acting fast. You can also see this turn in the tone of the government and in the media. For example, in foreign relationships, China and Japan started talking – with no pre-conditions, they just started talking.

You mentioned that investors would be voting with their feet, and sure, on one side I am concerned as well. The Chinese economy is slowing. The government has all of the data, they certainly have more information than we do, and so in a way this type of dramatic turns in government action is worrying me as well. *Maybe the economy is worse off than we think in some way, otherwise why would the government suddenly become so pro-business? Of course, the government policies are certainly conservative, but also very fast moving, so investment sentiment could also turn around at some point.*



Let me make clear that this isn't our trade; we trade FX quantitatively and systematically, and we have taken advantage of the widening global divergence in 2018. We are also pretty confident that our dynamic approach would adapt well to future changing market conditions, say if or when the market sentiment turns around.

Gregory Davidson: In terms of the government's focus on private business, maybe there isn't that much leeway as far as what they can actually do here anymore.

After 2008 they turned up investment demand and boosted the cycle which was driven by issuing debt. But China looks a lot different now than it did 10 years ago and China debt levels have doubled. They already have a slowdown, equity market is already down, they have a situation where they want/need to do something, and they can't do what they used to.

We hear there will be some new policy initiatives, for example tax cuts, maybe 25% tax cuts for corporate rather than on individuals. There will be a VAT cut – these are measures they haven't really previously been tried before.

So this time around it can't be about building another railway system – they already built it – the solution will have to come from other parts, and this might as well be private business. So I would agree with Joe, the trade conflict with the US might be beneficial in the long run, in that it is possibly pushing China in the direction they have to go, namely driving a private domestic demand agenda.

Also really interesting is the overtures China is making bilaterally to other counterparts, probably to counter the political pressure they feel from the US. They have to build their own alliances, so China is making an effort to make new friends. As Joe pointed out, China is trying to embrace Japan which is the third biggest economy now, along with others.



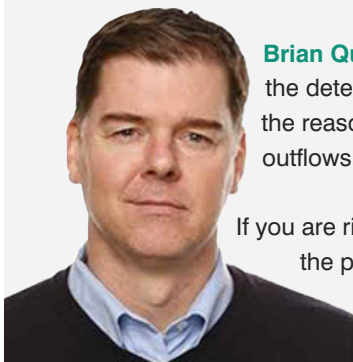
Joe Zhou:

Greg, I would agree with your analysis, and this is also why from an investment point of view the best trade may not be so much about bonds or even equities compared to the opportunities in FX. The Sharpe Ratio could be higher here. Of course, if you want to make big money, then obviously equity or commodity could be even more attractive if you got the timing right, but in terms of Sharpe Ratio, I think RMB is an easier bet.

Gregory Davidson: Do you think the CNY rate is actually important to the overall system?

Joe Zhou: I think it's inevitable that China has to conduct loose monetary policies for some time, while the US could continue tightening, and this could put a lot of pressure on the Chinese currency.

Gregory Davidson: During some of the recent spikes of dollar strength, we have heard that the government itself is actually supporting the CNY at this point; and without that support, the depreciation would actually be a lot worse...



Brian Quartarolo: One thing I've always noticed in trading during 2018 is that investors were looking at the deterioration in global equities but wondering why treasury bonds didn't rally sooner, or more. Part of the reason why was because you see the reserves being burned at PBOC to defend the currency vs. the outflows, right? They were selling Treasuries and thus reducing FX reserves.

If you are right, Joe, and we see a turn in Chinese investor sentiment at some point and stocks rally, given the persistence of how money outflows have impacting the currency, can the RMB turn around with it?

Joe Zhou: Well, I would say no, because this time – unlike the typical EM story where you usually see a triple rally or a triple selloff – due to the capital control element, China is actually a bit different from the typical EM story.

Equity could rally, but the currency probably won't move much. It's like the Yen and Nikkei relationship, if you will, where you can see it almost everyday that when Yen goes down and Nikkei goes up and vice versa. So you could see something similar, because this is not a growth-induced rally but a liquidity-induced rally. In a way, you could say that this is what we do for a living, by the way, playing the dynamics of growth versus policy.

So, again, if it's not a growth story but rather a monetary policy story, then currency weakness is associated with a stock rally. I think China displays now more of a policy-induced rather than a growth-induced relationship between equities and the currency.



Gregory Davidson: Looking at the level of Chinese equity markets and where they are now, they are at what most people consider fairly depressed and actually attractive levels to buy long term.

Stephen Woodrow: I agree, single digit forward P/E on H-shares, for example.



Gregory Davidson: Going back to I think the beginning of 2017, the currency was almost near 7 two years ago and then came all the way down to 6.3 and now it's back up again to near 7.

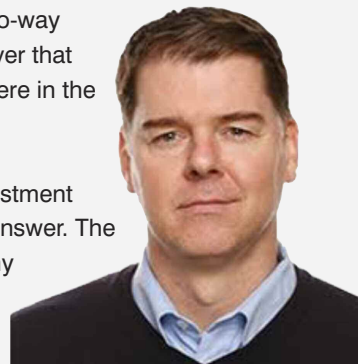
One new factor for real money flows is the **Stock Connect** between Shanghai and Hong Kong which are opening up additional levels of trading, and then London-Shanghai is supposed to come in 2019 as another avenue for more capital inflows that can come into China. If there are starting to be larger allocations to EM, then that could affect the currency a lot more significantly than it did in the past.

Stephen Woodrow:

And then in 2019 we'll have MSCI increasing the weight of China A shares in the MSCI Emerging Markets Index, so there also needs to be a greater market accessibility, so it's got to look like it's easy to access. This then also goes back to Joe's earlier point about support for the private enterprises.

Brian Quartarolo: However, foreign investors' sentiment around capital account opening is a two-way street. You cannot simply open up the capital account inflows and expect investors to jump all over that unless you are accounting for the outflows as well. And the persistent hot money outflows are there in the balance and payments data for everybody to see.

And if the Chinese leaders really want to test the robustness of whether their markets are an investment destination for foreigners, then this is really the only fulcrum release to get a true and authentic answer. The rest of it is policy by piecemeal and investors are never going to be really enthralled by that, in my personal opinion.



Joe Zhou: I think that these are all valid points, and probably only time can tell. I don't expect it to be a long time before we know where China is heading in terms of free market reforms.



I personally think there is actually a good probability that the government will adopt the second phase of reform due to the pressure from the rest of the world, and become a real player in the global economy and the global marketplace. But again, regarding the timing I think we will probably know pretty soon, because Chinese markets are of course depressed, but they also don't want to wait forever.

I think there are a number of positive signals but the market tends to ignore and not believe them. This is typical bear market kind of situation, where people don't even believe positive news until this positive news starts to accumulate to a certain level, and investors then start reacting to that accumulation of positive news.

Brian Quartarolo: One factor that may help underpin Joe's thesis of a stronger China-led risk asset rally could be coming from the Federal Reserve. If we talk about what are the factors driving global markets this year, I had pointed to the trade war risks, particularly given how bullish foreigners were.

But the trade war issue was out there and being priced while the Powell-led Fed was perceived to be ignoring what was going on outside of the States. And I think we have seen now financial market developments reach prices in America, where the Fed cycle has been reached.

I would suggest investors look at a piece that was featured on the Federal Reserve Board of Governors website by Professor Roberts about the neutral, real interest rate. There has been an awful lot of discussion around the question, "How do you get rates to neutral?" and "Where is neutral?"

The point here is that - in fact - the Federal Reserve has already told us where they think an important indicator of neutral rates are. If you look at 10-year yields in the States, **we reached neutral already around the middle of last year.**



Joe Zhou: This is more or less what I have been doing for the last few decades, looking very carefully at the reaction function by the central banks, especially the United States. I think the Fed actually look at economic data and also quite frequently at the financial markets, so the S&P 500 is one of the things they actually look at to judge policies. In general, the US is a very interesting government, they watch the markets very, very closely, and if the S&P goes into negative territory, the tone will change.

On our side, we had also changed our view of the US dollar from long to slightly short US dollar because of all these developments and are already anticipating a softer tone from the Central Bank. Obviously, we don't have ironclad kind of fixed views of everything – we look at data, we check our views everyday.

There's also a downside possibility – should the trade tension escalate dramatically, it will hurt the US equity market much more. China benefited a lot from trade on the labor side. The money was not made by the Chinese, but it helped the Chinese to employ millions of workers. It's pretty low cost, maybe not as low as it used to be, but compared to the G10 countries China still has relatively low labor cost to produce components for the middle level in the supply chain.

But again, China doesn't make the money; the money is made by corporations, most likely foreign corporations. Look at ownership of even the star companies in China like Tencent and Alibaba where the Chinese may not even own the majority shares out there, and this includes of course all the foreign joint ventures as well. The foreigners make the money, and should we really have a full-fledged trade war, the US and other foreign companies could actually have more to lose.



Brian Quartarolo: There is a lot in what you just said Joe, because you are not just talking about the impact on America, Inc., but also refer to wealth effects and negative feedback loops. But just go back to the root issue, which is the USTR's approach with tariffs and look at what has been implemented already. This was an obvious strategy by Lighthizer to go after areas where the price elasticity was such that if the Chinese producers didn't accommodate the tariffs and hold price, the U.S. consumers could find the same good type elsewhere. In that sense, the impact was on China right away. But you are right, if you broaden that tariff out to the full \$505 billion in goods, then the impact can spread dramatically between both sides.

For example, most estimates suggest that roughly about 80% of the initial tariff impact hits costs on Chinese companies, with only the resulting impact coming on to American companies, but if they go and double that to the next round of goods, then of course there won't be the same price elasticity. So, initially China has to cut prices, otherwise they are out of business with their American customers, but with the next round, the impacts on price are going to be there for both sides to swallow.

If this continues and we get a global trade war with major auto tariffs and such, then we would see an even bigger impact on American consumers. Imagine thousands of dollars added on to the price of an American car – whether it's a foreign car or a domestic car, both are loaded up with foreign parts anyway - that would be horrendous. I would think that maybe Trump needs to be careful.



Matthias Knab

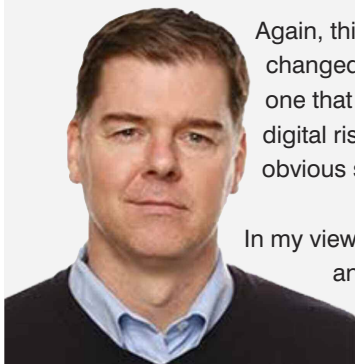
Looking at the recent pressure investors are facing from the markets, have you changed anything in the way you invest or you manage risk?

Brian Quartarolo: We use a real-time fundamental scorecard methodology, which is always under review and refinement. The cards form the bedrock of our investment approach. We look at 12 different countries in Asia that have liquid markets, starting with New Zealand and following all the way through to India and we score what the optimal outcomes are relative to expectations. For example, we are looking at GDP via the output gap vs one year consensus forecasts. We also have the same process for employment via the NAIRU and inflation targets both vs. 1 year consensus expectations for each of the 12 countries.

Beyond that, we look at the composition of growth. We look at if it is coming from consumption, investment, government spending, or from net exports. From the composition of growth, we start to identify which asset class reflects the nature of growth best: is it an FX trade, for example? Asia still has a lot of hollow economies, even though the story for the Asian future is about consumption, it is still about net exports today, and so many times the effects are more obviously observed in the exchange rate on that basis.

Again, this methodology forms the bedrock of what we do. While that will never change, what has changed is the identification of transient indicators, or, the headwinds to the tailwinds. We have a colossal one that we have spent the better part of 40 minutes talking about today, right, the "trade war" and it's a digital risk that just keeps getting rolled further and further and further out because we are not getting the obvious solution.

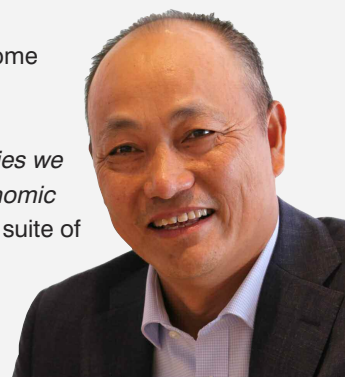
In my view, it's important to have such a methodology that creates the bedrock of your investment style, and then of course one simply has to be flexible to the events that are developing out there.



Joe Zhou: If we look at what has changed and what is different this time, and sum it up in one sentence, I would say that what we are looking at and dealing with is the **unwinding of globalization** to some extent.

There were a lot of dividends coming out of globalization where in a way the world started to become like one world. Now, it looks like there's an unwind from that happening.

So from our point of view at Ortus, the question we ask ourselves is: what are the types of strategies we can come up and implement over the next few years that can take advantage of the growing economic divergence as a result of less globalization? We are confident that we are well-positioned with our suite of dynamic and adaptive strategies.



Gregory Davidson: Running an arbitrage fund that is centered on the futures markets of both China and the West, obviously we employ a certain amount of leverage in order to generate returns. That leverage and increase in volatility can enhance returns, but it's a double-edged sword as it can also create risk. *We decided to scale back positions and now run with less leverage than probably six months ago.*

What we think is different and more concerning to us in the current environment is **event risk**. A lot of it is geopolitical risk, the things that are coming out of policy, particularly out of the US where things can happen that impact one side more than the other. For example, the sanctions that the US imposed on Russia and Iran particularly affects commodity markets from a production standpoint.

Coming back to Matthias' question, what have we changed? So, not only have we reduced position sizing, but to counter some of the event risk, we are also starting to employ more options in order to **take out the tail risk** on that. Even though we are non-directional – most of the strategies are over long-term non-directional – short-term however we will have some beta to underlying prices, and so we have to keep that event risk in mind.

Another important factor in this section is the FX component of what we do. This is an important factor in any arbitrage where the component parts are priced using different currencies. Today we hedge all our FX exposures using one of the many CNH instruments out there, but that was not always the case and may not be the case again if the RMB starts to tumble.



At the very base of what we do is that we look at factors that price various commodities that are largely fungible in different ways, and the FX component is one factor we consider. We try and rationalize why a particular pair of commodities have moved in different ways and capitalize on those movements that we think are unsustainable. What has been very interesting to us is *how some of the more established commodity markets in China have become much more currency correlated than before*, which makes them less appealing to a fund like us that tries to strip out those factors. So to answer your question on how this affects our decision making; it makes other less-FX correlated pairings more attractive and so our product suite has changed significantly over the medium term.

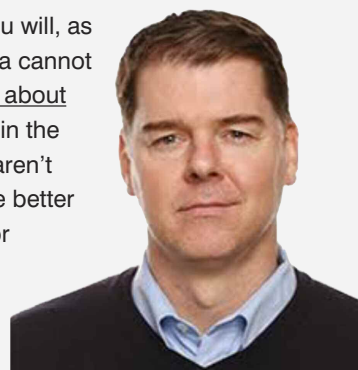
Brian Quartarolo: I would second Greg's point. The active manager is always going to be more careful amidst sticky vol than otherwise, and more tactical as well. You are getting more bang for your buck in any position expressed at 20% VIX than where the VIX was before at 10.

Also, from a thematic point of view, Joe's statement about the end of globalization is a big picture theme that is so different from where we were at the start of this year. In January 2018, I spoke at a SocGen conference I mentioned that there were three risks to an otherwise constructive macro outlook, but they were all on the downside, and one of the big ones I talked about was the trade risk.

The other one was, in fact, that monetary tightening from the Fed would go too far. The third was around a Chinese hard landing. I was asked a lot about Brexit, but it isn't really my forte. I also refuse to accept the Brexit decision matters much for us in Asia. The UK is a relatively small percentage of global GDP, let alone Asia's.

I suppose that Trump's unilateral management, or whatever you want to call it is an increasingly dangerous risk. Of course, I am speaking now to the "Foreign Affairs" crowd, those that want to paint this big "tectonic plate shift" in geopolitics and change in the economic and political model emanating from Trump. I don't know if I believe that.

Is globalization dead? If you truly believe it is, then Asia will remain chronically cheap, if you will, as investors figure that out. And then, apropos the point Joe made earlier about a relief rally in China cannot exist. There simply won't be a bounce in Asian assets in 2019 unless investors change their view about globalization. I don't know whether the globalization that has served us so well, particularly here in the region for so long is over, but to be sure, the eruptions that we have experienced this past year, aren't going away. Hopefully, if the U.S. and China reach a trade deal, we get back to normal, or maybe better than normal if the deal comes with fewer barriers to entry and stronger, more fair opportunities for competition.



Joe Zhou: I don't think that globalization would be totally dead, maybe something more of a partial or selective globalization will develop. Even for the UK, it's not that the UK citizens wanted to opt out of trade, they still like it and need the trade of goods and services, there are just a whole lot of other things going on in that discussion.

I would also assume that China and the US will continue to trade, I don't think that we'll see a real Cold War. But for sure, certain things that we took for granted in a global financial system, some of these assumption out there can no longer be taken for granted, and this risk affects our job in terms of portfolio selection. It also affects more importantly, millions of companies out there and as I mentioned earlier, it affects the sentiment in China and other places. It affects capital spending, all those things, the unintended consequences of the debate about foreign affairs has a real toll on the economy.

This gradual, little by little unwinding or reversal of the globalization trend, even if half of that realizes, has then of course a huge impact on FX and more markets alike. Note this is strategy risk, so here I am not talking about event risk. Short term event risk can be managed by other portfolio construction processes, so for us being all systematic, it's built in the code, that is not what I am worried about.

But generally, after so many years of investing, the big question investors and investment managers should also always have in mind is **if the strategy assumptions still work**, especially for quant type of strategies. Every quantitative model is in the end a collection of assumptions and their conclusions, so the key are the assumptions.



Just take zero interest rates, which are of course an entirely different regime. We spent over two years trying to analyze it. If we would just plug in zero interest rate in the existing pricing models, then they would simply blow up. So, it took us two years to figure out zero and negative interest rates. But that's what it is, I mean, it's like singularity in the interest rate markets, right? And then now, if globalization, which is supposed in theory to be good for every country, is changing, that is also kind of a new paradigm, but we really seem to be going in that direction.

Gregory Davidson: You are right, Joe, globalization has actually created prosperity beyond what anybody could imagined since the end of the Cold War. The Chinese are just as shocked if not more so than the West at how they far and fast they have developed. It has been fantastic for hundreds of millions. But you could also say that **Trumpism, Brexit, etc. are all cut from the same cloth**. Yes, there has been great prosperity, but that hasn't been equal. Those backlashes that are happening are really from the parts of the societies that have not benefitted.

Huge prosperity has been created for example in the large cities in the US, Silicon Valley or the East Coast, those regions are wealthier than they have ever been, but you come go to the center of the country, factories are closed, and those people are certainly unhappy.

Prosperity, progress, whatever you want to call it, doesn't happen in a straight line either. There are peaks and troughs. There used to be wars that were fought that then also were causing major changes. This is luckily not happening at the moment, except for some smaller, isolated places.

But what does all of this mean for FX, macro, or for us trading commodities — I think this isn't really a bad environment for us. Things going up and down, and I also would add that dislocation can be positive as it creates opportunities.



Brian Quartarolo: Greg, no doubt about it. This point was raised already decades ago. Those issues about inequality are not new. Remember, Lighthizer was pushing this agenda towards Japan back when Reagan was in office, but the issues keep growing in China now and people are angry.

And then, regarding Asia, which has clearly shifted from, "Hey, Asia has a future too!" to "Oh my gosh, whither Asia's future if globalization is dead?", it seems to me that the political backlash against globalization is still a headwind. I don't think it is the tailwind. I don't think it is the investment theme yet. It could be wrong, time will tell.

At the end of the day I think America are still free traders or at least, that's what Larry Kudlow and others in the Trump administration are telling us. So, I think some of the things that the Lighthizer team are looking at are very sensible, they have been around a long time, they need to be addressed, etc. I can't really speak to the security dimension, but the IP stuff is pretty obvious.

Looking out into 2019, maybe we get some clarity on that. Maybe the fears that have built up all over 2018 are tamped down a little bit because we realize that we are not going from "Hey, isn't Asia going to be the next big thing because of these forces of globalization!" to, "Oh, my gosh, Asia is going to crash, or it has crashed?" As I said, export shares are already down 50%, so that's bona fide crash.



So, that is how I'm looking at things right now. Perhaps we get back to a little bit of sanity. Maybe we realize that yes, there are material issues here and they are being addressed. We have spent the last year pricing the worst, but maybe we've overpriced it?

Ted Chen: I spent a fair amount of time in China, Beijing, Shanghai, and having gone through many bear markets in China, my take is that this one is quite different.

During the previous bear markets, the foreigners tend to be very bearish while the Chinese were like, "But hey, that's no problem." This time, it's the other way round. People I talk to in China seem to be extremely negative. This is a fundamental difference to previous bear markets and the funny thing is that the closer you get to Beijing, the more negative the sentiment seems to get. In other words, people in Hong Kong, Guangdong or Shanghai are already very bearish, but for some reason people in Beijing seem to be even more pessimistic. But this may be just my personal observation.



Stephen Woodrow: Societe Generale did a road show around Europe earlier this year with a focus on China and interestingly, even when the China equity market was down heavily on the day of the forum, people were still coming to listen and ask questions about **how they could access China**, so there is still a strong interest against what those rooms would have been like in the past when equity markets were falling.

Ted Chen: Right, that's the foreigners. We are running a Pan Asia Fund, and about 50% of the portfolio is exposed to Greater China. When I went to Europe and the United States earlier in 2018, investors ignored the weakness in China, because at that time their own markets were still doing quite well.

Stephen Woodrow: Right, and so at our roadshow, we found that foreign investors, especially the long-biased, are more interested in China, and hence have designed our agenda with a strong educational focus on the possible avenues to access the Chinese markets.

Ted Chen: Sure, and a lot of those monies will be on the passive side as a consequence of MSCI including China A-shares in their global emerging market index.

Joe Zhou: I share your observation, Ted, but the conclusion could also be different.



Maybe just because so many Chinese are waking up to the reality, to international relationships, economics, and that's the reason for me to stay bullish. So my conclusion here is probably different, because I also see that for the first time a lot of Chinese stand up, they discuss where the country is going in terms of policies and international relationships, there's a genuine debate about tax cuts and supporting private enterprises, and these are signs I interpret as bullish.

It may not turn around next week but now people are waking up and are seeing the problem that was previously hidden – that's what I am saying because the problem there was hidden. Nobody paid attention before because everyone was having a good life.

Ted Chen: Let's not jump into conclusions first but start with putting some facts on the table.

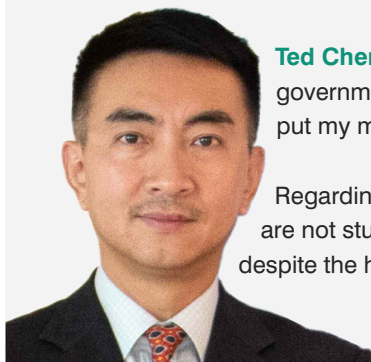
We talked about private enterprises in China, but actually *2018 is the first year that we see a decrease in the investment from Chinese private enterprises. You can tell this from the government statistics. From 2012 to 2017, every year we see an increase in the net equity of the private enterprises, but this trend reversed since the end of August 2018.*

This means the private enterprises are not putting their retained earnings back to the company. This, from my perspective, is a sign of the negative sentiment among the private enterprises in China.



Brian Quartarolo:

We also know that two-thirds of all new credit next year is going to private enterprises. Does that offset the bad news that you have just mentioned?



Ted Chen: I think such changes or shifts tend to be long term. Once people have a certain distrust of the government, it will be difficult for them to turn around and say, "Okay, now I trust you again. I'm going to put my money into the project."

Regarding the funding, yes, the private sector will take it and leverage up using government money, they are not stupid. But, when it comes to their equity, I don't think they would increase their own investment, despite the huge demand for that.

Brian Quartarolo:

But you are seeing the investment, it's just not coming out of retained earnings, is this what you are saying?

Ted Chen: Yes, I think the private enterprises in China are investing with borrowed money, and so the efficiency of that is questionable.

While China over the last 30 to 40 years was very lucky or very smart in doing the right things, 2018 might be the epic year which the Chinese government started making mistakes.

But let me also add that whatever China's economic situation looks like right now, it's not a dead end yet. In the next 10 to 20 years, China will still have the largest consumer market in the world. This is a huge advantage. So, for us who are looking for investment opportunity, we should look for where the growth will be instead of competing on low labor cost.

I'll give you two examples, one is health care, even though this year the sector suffered because of policy blunders from the government. Right now, health care expenses in China are only at 6.2% of GDP. The average spending on healthcare as % of GDP is 9% across the 35 OECD countries, with the United States spending as much as 17.2% of GDP on healthcare. Clearly, there is a lot of room for growth.

Another sector is education. China spends about 4% of GDP on education and the demand continues to grow exponentially. I often tell my analysts that all they have to do is watch where they spend their income. I spend a lot on my kids' education. Chinese love to spend on education, so I believe this sector still has huge upside given the huge high demand.

So, Joe, going back to your assessment, I am bullish on demands in those sectors, and maybe a few more. *There are companies that would continue to grow even with the trade war going on.*



Joe Zhou:

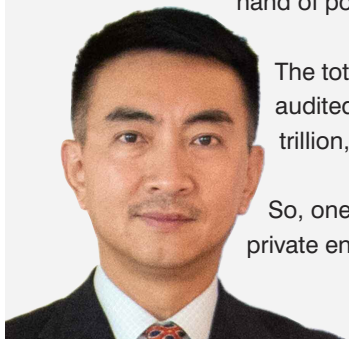
Let me clarify that right now, as I said in our Investor Letter a couple of months ago, unless the Chinese government takes dramatic actions to restore business confidence, we'll have a big problem out there.

But judging from the last couple of weeks, I think government is putting economy ahead of politics. So I see a lot of things coming up just recently that make me question staying overly bearish on our economy, because the Chinese government can still do a lot of things to support the market and the economy.

Ted Chen: But honestly, on my end I haven't seen this kind of government response. You are right that China still has a good hand of poker that they can play, but I don't think they will play the right cards. I'll give you some numbers.

The total assets in state-owned enterprises is about 92 trillion RMB if you look at the annual government audited book. That's a huge number and out of that 92 trillion, the profit they made is only about 7 trillion, which is lower than what private enterprises can do.

So, one idea for the government would be to sell maybe a-third of the state-owned enterprises to the private enterprises. China has very talented entrepreneurs like Jack Ma and Pony Ma. If you sell one-third of



the state-owned enterprises to these great entrepreneurs – say you sell 30 trillion and they make 10% return on capital, then that's 3 trillion.

Brian Quartarolo: Ted, now you're talking about theory, right? So let's follow your idea to conclusion. I wonder, would you also suggest to re-liquefy them? In other words, would you move money into the state-owned enterprises? I saw this three times in my career where they put capital injections into financial institutions.

You brought up the idea, so I am asking you if you would actually put those type of injections into state-owned enterprises and shove up their balance sheets, and then go and float them?

Ted Chen: This is an interesting thought, but I don't think they need to. They should just sell the assets, because whatever money they put in, I think the return on that type of money will be very low. Also, the 92 trillion I mentioned are market value, but if the economy continues to go down, that could shrink to 85 trillion or even lower. However, while I think that's the right thing to do, this would undermine the government's control.

Brian Quartarolo: There is also still a sort of struggle between ideologies, like, should we go to more capitalism or more socialism, so to sell off assets through such a privatization, I don't know if that could happen very easily.

Ted Chen: At the same time, maybe this is the best and the easiest thing to do.

Joe Zhou: In terms of investment strategies and making money, I think in the current environment it's actually better for macro strategies compared to say stock- or bond-picking.

Ted Chen: I think you can also identify some niche opportunities by doing some fundamental research. For example, we looked at **property developers** and realized that the combined A shares and H share market cap is less than 3 trillion RMB while total sales is over 14 trillion this year. For the last five years, it has been around 10 trillion. There appears to be some value to take advantage of.

Brian Quartarolo: Well, as we said, if we get a sense of normalcy around this issue of globalization – is it dead, still alive or is it just morphing into a different form – then these easy pickings out there across Asia just show how dramatic the sell down has been.

The other technical factor that may help, which I added before, is the Fed. Based on the Fed's own research, real long term market rates already traded to neutral levels, so we got to the point before the December hike where they should be stopping. So if you remove that technical and you feel that a lot of the trade war risks are priced in, then perhaps 2019 can be a return to performance in Asian assets.



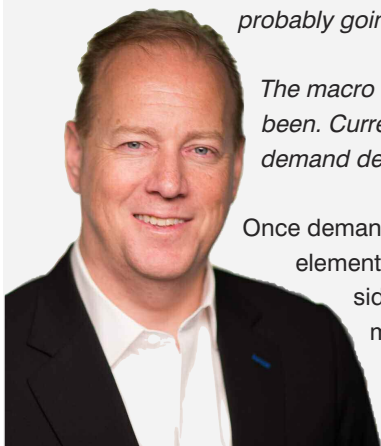
Ted Chen: The wildcard deal regarding Chinese asset, but especially from overseas, is of course the currency.

Joe Zhou: Ted, I fully agree with you on that. There is certainly a growing economic divergence out there, and FX is the right or natural asset class to benefit from that.

Ted Chen: Looking into 2019, we may potentially see a switch from growth back to value. Growth has been outperforming value for many years, maybe we are at a turning point.

Gregory Davidson: In my view, probably until sometime in 2019 we are still going to have a continuation of what we have now.

I would expect most assets to still display a fairly high correlation. But *once EM can recover, then we are probably going to see much higher commodity prices as well.*



The macro environment is the major influence on commodity markets at the moment as it has always been. Currently there is a divergence between the supply fundamentals versus the macro-pessimism and demand destruction. And once that part has been sorted out, the supply issues aren't going away.

Once demand recovers, and then we would also see higher prices on most commodities as most of the raw elements are in a supply squeeze which typically take some time to sort out and given the demand side growth predictions of most metals we trade are likely to be significantly higher in the short/ mid-term on that metric alone. However as we all know, supply / demand analysis only gets you so far in assessing where the median price falls in the medium term.

Matthias Knab

One theme that is quite discussed internationally is the One Belt, One Road project, do you see any reverberations of that? And is that project helpful at least mid or long-term?

Brian Quartarolo: I would say that if you are in Sri Lanka, yes, and that event has been widely publicized to the point where we now have, Mike Pence telling us, "we're not going to force anybody in Asia to a constricting belt in a one way road." So, it's out there. The fear of, "Oh, do we want to take these loans from China?" is out there, but if you look at what's going on in the Philippines today, I think that serves as a model for Asian development.

I have been investing in Asia for 25 years. I've seen some things in these countries that I wish I never saw. Extreme poverty. China is stepping in to provide bona fide development assistance in key infrastructure areas that have been necessary for a very, very long time.



If I were the leader of PNG, or if I was in Duterte's seat, absolutely I would welcome these Chinese investors. Really any country that has been running chronic current account deficits and in dire need of infrastructure and finance.

So, again, to be sure, the warning signs are now out there, with the Sri Lankan example, but if you are an elected leader of one of these countries, I think you'll be mad to turn away Chinese investors who are providing development aid. Just understand the contractual risks.

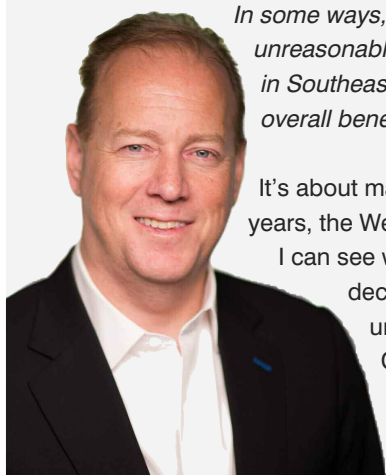
Ted Chen:

As an investor, there probably aren't that many short-term immediate profits we can explore, but as a whole for the regional economy, I think the One Belt One Road is a positive.

China having spent so much money to build the railroads and the high-speed trains, I think for the economy, infrastructure will benefit, but I'm not sure if any investors had made money out of it.

Gregory Davidson: The Belt Road initiative has been good for commodity markets. For the last few years, it has been a continuation or a supplement to the infrastructure spending by the Chinese.

The reason why China was able to go in these countries is because they only got rhetoric or handouts from the West, and that didn't really help them develop anything.



In some ways, the Chinese investment at least is honest. They want something in return, which is not unreasonable. It's not a handout, which was just then being taken by a corrupt political class somewhere in Southeast Asia, Africa or wherever and winding up in private banks. So, I think it's probably been an overall benefit for the countries, and thus the build out will continue.

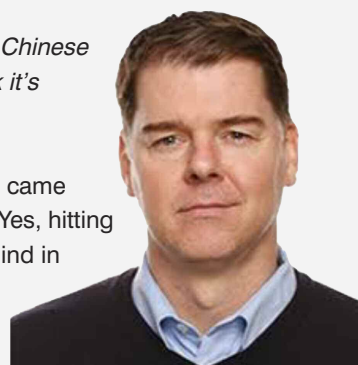
It's about major infrastructure improvements which were not there previously. If you look at Africa over the years, the West has invested and pulled out as economics defines which have left countries in a mess, and I can see why the African countries now want more than one option on the table. This desire to deconcentrate investment and make traditional investors work for their money is wholly understandable and, in many ways, should be applauded. This extension on China and Chinese aspirations in a truly Chinese manner is something all EM will need to come to terms with as they seek investment in the future.

Brian Quartarolo: Also, I think the impact hasn't really even been felt yet because the approval of a lot of these projects is still going through different local parliaments and other decision-makers. Once these projects have moved on, the impact will be obvious and anybody who has been to Asia and travelled around some of these countries will be delighted to see the developments they bring to impoverished places.

And then secondly, we spoke about barriers to trade and risking an unwind of globalization, and yet at the same time, China is out there negotiating the biggest free trade agreement with the whole region with their own RCEP deal. An important component of that is establishing the rule of law around the South China Sea flyover, which includes the contested Spratly, Senkaku, or Diaoyu Islands, whatever you want to call it.

If China is leading that as a best practice model, then this fear of, "Oh, we don't want to take the Chinese money because we are afraid we are going to have to annex our ports to them," et cetera, I think it's going to pale in comparison to what may actually be fleshed out.

That's the secular theme in Asia – it's really about **interregional trade**. It's a reversion to how we came into 2018 with the rise of the Asian consumer. Those demographics are clear. They are obvious. Yes, hitting 25% tariffs will temporarily damage growth, but not to the extent to which we have seen. In my mind in the longer term, there is a way too much fear priced into Asia.



Matthias Knab

Stephen, before we close, what other observations can you share from the prime brokerage and cap intro side at SocGen?

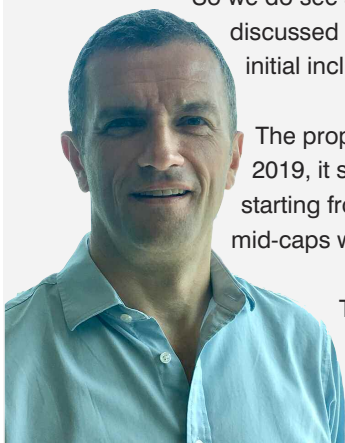
Stephen Woodrow: Our strategy as a prime brokerage provider is to focus on clients such as the multi-strats, CTAs, and macro funds because they are the clients that we can support and promote holistically from a cap intro and platform point of view.

*There is larger interest for Greater China fund access into Greater China through the Stock Connect, through H-shares and the Qualified Foreign Institutional Investor program or QFII. That has been a theme throughout the whole of 2018. On the fund side, the interest is for **multi-strategy, macro, CTA, and Greater China long/short equity**, and actually those are also the strategies where we as a firm are best situation to serve and support.*

So we do see a lot of demand for those types of funds, and that goes really hand in hand with what we discussed earlier about MSCI which right now has included Chinese big-caps in its flagship indexes with an initial inclusion factor of 5% and proposing to increase that factor to 20%.

The proposed increase will happen in two phases coinciding with MSCI's index reviews in May and August 2019, it said. MSCI also proposed to add **ChiNext shares** to the list of eligible segments for inclusion starting from the May 2019 Semi-Annual Index Review. The index provider also considers adding Chinese mid-caps with a 20% inclusion factor in one phase as part of the May 2020 Semi-Annual Index Review.

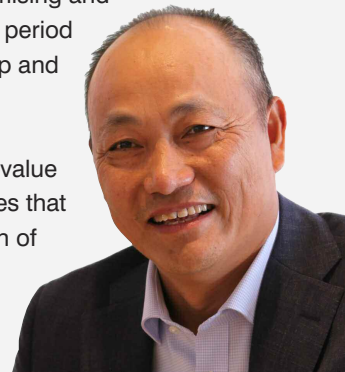
This is really a tectonic shift for China equity, and you can imagine that a lot of our discussions with investors and investment managers are around market accessibility which in fact China has to ensure to remain in the MSCI indices.



Joe Zhou: Adding to Stephen's comments, given the current market condition, we also enjoy a growing demand for our type of strategy – so **FX and really anything that's uncorrelated** because in 2018 almost all portfolios holding stocks or corporate bonds will be in negative territory, but with a bit of an overlay of our type of strategies can help to improve returns. So there is certainly demand for what we do.

Regarding new funds or products, we have implemented several new strategies that are very promising and all have been profitable. For example, our multi-asset Precision Program has a short-term holding period that ranges from hours to days, and can identify trends during early-stage of informational build-up and profit from price momentum.

Another example is our Global Futures Program that can profit from both momentum and relative-value opportunities, also with a short holding period ranging from days to weeks. We also have strategies that are related to the broader China-Connect theme. So overall we are going into 2019 from a position of strength.



Ted Chen: That's a good point, and I also believe that **demand from mainland Chinese investors for funds and products which are uncorrelated to the Chinese economic cycle** or market cycle, and preferably with a low volatility, will pick up.

If you can offer such products to mainland Chinese investors, you will have a good selling proposition because they have gone through so much volatility in the past.



Joe Zhou: I agree, Ted, this is what I also see.

Gregory Davidson: I think the pick-up of investor demand for Asia is also supported by two other factors.

One is a **rotation of assets**, people coming out of the US where looking at the asset appreciation investors have enjoyed there for the past ten years, investors may now think that that trend is probably done and so they are looking for other types of investments that are non-correlated, and hopefully we can benefit from that money flow.

Then secondly, there is more money also coming out of China as well. Of course, the capital controls are there to stop the money from leaving but it will not stop all, and there is also a desire to divest from the Chinese property market that is now rolling over.

And then lastly, we also see effects from the implementation of Common Reporting Standard (CRS) which are now being implemented, so we will likely also benefit as investors are encouraged to search for other types of investments.





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/>

Contact

Matthias Knab
Founder
Opalesque Ltd.
www.opalesque.com
Email: knab@opalesque.com
Tel: +49-89-2351-3055
Mobile: +49-170-189-0077

