



# Opalesque Round Table Series '09 CONNECTICUT

# Editors' Note

Dear Reader,

Welcome to our inaugural Opalesque Connecticut Roundtable!

Connecticut is the home of 17 of the world's top 100 single and multi-strategy hedge funds and has roughly 1/3 of the global hedge fund assets under management. Given the proximity to New York, it could be argued that over half of the world's hedge fund assets can be reached within an hour's drive.

As a consequence, Connecticut is also the base for some of the world's most sophisticated hedge fund-of-funds and hedge fund advisers.

In this Roundtable, we continue our exploration on how the industry has changed, and is still changing, after the events of 2008. The Roundtable was sponsored by Taussig Capital and took place in Greenwich, CT on Sept. 17th with:

- Virginia Reynolds Parker, Chief Executive Office, [Parker Global Strategies](#)
- Michael Kelly, Co-CEO and Chief Investment Office, [FrontPoint Partners](#)
- David Saunders, Managing Director, [K2 Advisors](#)
- Brian Lasher, Head of Research, [Federal Street Partners](#)
- Ron Lake, President, [Lake Partners](#)
- Ken Shewer, Chairman, Co-CIO and Co-CEO, [The Kenmar Group](#)
- Daniel Rizzuto, President, [DKR Fusion](#)

Many of the participants are very confident about the growth prospects of the hedge fund industry. There have been views that with the continued institutionalization, we could even witness the emergence of some major complexes with assets in the order of \$50-100 billion AUM.

- How to run a book of matched assets and liabilities
- Case study: how a managed account can save you when your administrator is on risk if it is owned by a troubled bank...
- What are the latest technological developments for managed account users?
- What strategies are attractive at the moment? What alternatives are there to directional risk?
- How do hedge fund managers play the gold theme?
- What regulatory changes are coming, and which will be the important ones?
- How do U.S. based managers and FoFs view the option of taking a hedge fund public?
- Did you know that you can now build a hedge fund portfolio with a growing pool of registered U.S. mutual funds?
- ...see for yourself what else is new in the world of hedge funds!

Enjoy "listening in" to the new Opalesque Connecticut Roundtable!

Matthias Knab  
Director Opalesque Ltd.  
[knab@opalesque.com](mailto:knab@opalesque.com)

# Participant Profiles



(LEFT TO RIGHT)

Brian Lasher, Ron Lake, Ken Shewer, Mike Kelly, Virginia Parker, David Saunders, Dan Rizzuto, Matthias Knab, Joe Taussig

# Introduction

**Ron Lake**  
Lake Partners

My name is Ron Lake and I am the President and co-founder, along with my brother Rick, of Lake Partners. Lake Partners is a registered investment adviser based in Greenwich, Connecticut. We have over 20 years of experience in designing and managing multi-manager, multi-strategy hedge fund programs for institutions and private investors.

**Virginia Parker**  
Parker Global Strategies

I am Virginia Parker and founded Parker Global Strategies about 14 years ago to custom design multi-manager hedge fund strategies for institutional clients, primarily outside of the US. We advise on over \$US 2.5 billion in AUMs including FoHFs, FX Alpha strategies and global natural resources including environmental investing and US energy infrastructure. We have offices in Stamford, Connecticut, Chicago, and Denver in the US and Tokyo, Sao Paulo and Mumbai internationally.

**Brian Lasher**  
Federal Street Partners

My name is Brian Lasher from Federal Street Partners, a \$1.5 billion dollar fund of hedge funds in Stamford Connecticut. The principals of Federal Street established the firm to manage their own personal assets in 2000 and began taking in outside capital in 2002. Today, we offer three global investment programs including an Asia / Emerging Markets fund of funds.

**David Saunders**  
K2 Advisors

I am David Saunders; I am one of the Co-Founders of K2 Advisors. We are primarily an institutional fund of funds.

**Joe Taussig**  
Taussig Capital

I am Joe Taussig. We partner with hedge fund managers to create banks and insurance companies, where the manager gets to manage all of the investable assets. These are permanent capital vehicles; the most visible we did with David Einhorn called Greenlight Capital Re; it has a little over a billion dollars in it. As the corporate sponsors of this Opalesque Connecticut Roundtable, thank you all for participating.

**Mike Kelly**  
FrontPoint Partners

I am Mike Kelly, co-CEO & Chief Investment Officer of FrontPoint Partners. We are a \$6.9 billion multi-strategy investment firm, started in 2000, and a subsidiary of Morgan Stanley. We manage 16 specialized absolute return investment strategies across equities, macro, credit and event-driven.

**Ken Shewer**  
The Kenmar Group

I am Ken Shewer from the Kenmar Group. Founded in 1983, Kenmar is an independent, privately held alternative investment firm providing an array of innovative solutions for global investors. Kenmar's four business units are comprised of our global institutional non-US multi-manager funds, our US multi-manager funds designed for institutions and high net worth investors, our single manager marketing and seeding business and our managed account platform for institutional investors.

**Dan Rizzuto**  
DKR Fusion Management

I am Dan Rizzuto with DKR Fusion Management. We are an institutional investment management company focused on the development and implementation of systematic trading programs and quantitative strategies. Since our inception in 2000, we have traded the most liquid global macro markets including foreign exchange, commodity and financial futures markets through proprietary systematic trading programs.

**Matthias Knab**

**What are the lessons learned from 2008? As asset managers and fund of funds, what have you actually changed with your procedures in terms of asset management and managers of fund of funds now that 2009 is almost over?**

**Brian Lasher**

The S&P 500 lost about 40% to 50% (peak to trough) in both the 2008 and the 2000-2002 bear markets, but it did it much more rapidly in 2008. In addition, the earlier bear market was clearly driven by the over valuations resulting from the extended bull market from 1982-1999 while the most recent decline was driven primarily by the massive deleveraging occurring throughout the global economy. During the earlier period, flexible investors found attractive opportunities in credit markets which dampened equity losses, while in the last year, credit markets have suffered as much or more than equity markets—i.e. there was no place to hide.

Essentially, our thought process has always been to invest with flexible managers. During the time period leading up to 2008 we saw flexibility within our managers, but you really weren't tested, because everything just went one way through 2007. This time around our managers in our investment programs did not adjust their risk profiles as quickly as we would have liked them. We believe our overall process doesn't have to be changed other than perhaps we were a little bit too patient with managers who really should have adjusted their gross exposures sooner. We have reduced our investments to those managers now.

In the meantime, the managers have clearly adjusted to the new environment, and we just want to make sure that we have the flexibility which we need. Those are the big lessons for us: you can't underestimate flexibility and you can't be too patient with managers.

**Matthias Knab**

**Are you now using more managed accounts as a means to get that flexibility to influence or control over the assets?**

**Brian Lasher**

We don't necessarily believe in managed accounts the way perhaps other industry professionals do. In the firm's prior life, managed accounts were the norm in the long-only manager of manager programs that our firm's principals ran. The purported benefits of greater liquidity, transparency, and fees can be gained in commingled investments without the necessary difficulties and expense of setting up an account and ensuring the necessary proper monitoring.

**Matthias Knab**

**More comments? What have you changed after 2008?**

**Mike Kelly**

As far as lessons learned, in this past market cycle, hedge fund returns were increasingly driven more by financial engineering than skill, through incorporating some combination of leverage, Beta and illiquidity. That approach worked well during the benign years of cheap, easily accessible credit, decreased risk aversion and low volatility. A number of hedge fund strategies offered persistent Beta and esoteric risk factors dressed up as alpha. Leverage and liquidity premia juiced returns at what appeared to be little cost.

This approach unraveled with the sudden upheaval in the financing markets and consequent re-rating of all risky asset classes. Beta went from being a tailwind to a headwind, leverage was cut and presented significant counter-party issues, and illiquid securities introduced a severe asset-liability mismatch during a very stressed market period.

At Frontpoint, we have focused on liquid alternative investment strategies with low levels of market Beta and low levels of leverage. Where we have incorporated less liquid securities or modest leverage, we focus on asset-liability management, matching our fund terms with our



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Diversification in recent years proved far more illusory in the environment we were in when everyone employed the same methods for diversification. We now pay a lot more attention to consensus opinions and investments as well as to the direction and magnitude of crowd behavior.

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From an investment standpoint, we more closely scrutinize strategies that incorporate degrees of leverage. The system we now live in will be far more judicious around the availability and cost of using balance sheet. Going forward, leverage will be more scarce, more costly and upcoming regulatory changes to the financial system will likely maintain that dynamic for a while.

We have always been transparent around investor communications, but if anything, we have been erring on over-communicating with our investors through this crisis – we felt this was critical given the unusual market circumstances.

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Matthias Knab

**You said you look at investors, their needs and their time horizon and then try not to commingle everybody in the same fund. How do you structure this process? Do you have different share classes?**

Mike Kelly

We look to distinguish between liquid and illiquid strategies and not confuse the two for the sake of raising assets. For less liquid strategies, like distressed mortgages and corporate bonds, we have longer lockups and notice periods and offer more liquid term structures for equity and macro/CTA strategies.

Ron Lake

There were three key lessons from last year. Lesson 1: keep things in historical perspective. Lesson 2: avoid panic. And Lesson 3: Take the long view.

Regarding Lesson 1, the Credit Crisis of 2008 truly was the proverbial “100-year storm”. There were some very scary moments. But we all know that so-called “100-year storms” seem to happen every three or four years.

If you look back over how the hedge fund industry has evolved, there have been several cycles of opportunity, growth, crisis and retrenchment, followed by renewed opportunity and growth. Too many of us have forgotten (or never knew) our industry’s financial history.

The first “Golden Era” of hedge funds occurred during the “Go Go” years of the 1960s. The first hedge fund bust occurred when the “Go Go” years went “bye bye” in the run up to the 1973-74 bear market.

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**In this historical context, the latest crisis was no different. Does that mean we all should have seen it coming? Hindsight is twenty-twenty, but this brings us to Lesson 2. As a friend of mine told me during the dot.com bubble, “If you are going to panic, panic early.” In other words, try to anticipate problems as best you can, and be wary of getting carried away with the crowd.**

**Ron Lake**



The second “Golden Era”, when funds such as Tiger, Tudor and Odyssey were launched, coincided with the bull market of the 1980s. This was followed by Black Monday in 1987, the collapse of the UAL Deal in 1989 and the Savings and Loan Crisis. A number of hedge funds did perform well in this period, but others found themselves on the wrong side of these events and there was a shakeout in parts of the industry.

The third cycle got under way with the 1991-92 market recovery and then accelerated as the “Masters of the Universe” capitalized on the European convergence trade, culminating with Soros’ famously “breaking” the Bank of England. But all of this led to yet another shakeout in 1994 when rising interest rates pulled the rug out from under the carry trade and Mexico suffered its currency crisis. At that stage many of the “Masters of the Universe” looked more like mere mortals after all. Ironically 1994 was when Long Term Capital Management was launched, taking advantage of many of the lingering dislocations in the markets.

The 1995-97 bull market saw the hedge fund industry rise again. But of course this was followed by the Asian Currency Crisis and the Russian Default in 1998, a year that was capped by the collapse of LTCM and a wave of margin calls throughout the industry that led to yet another shakeout. In retrospect, LTCM seems almost quaint in comparison to Lehman’s collapse, but at the time it seemed like the financial system as we knew it was teetering on the brink of collapse.

In short order, though, the next bull market got under way and hedge funds thrived again. It didn’t take long for the next crisis, which of course was the “dot.com Bubble” bursting in 2000. These first few years of the Millennium were interesting because the ensuing bear market really separated the wheat from the chaff. Some hedge funds imploded while others proved their mettle by preserving capital and making money. This touched off the quantum leap in interest from institutions who were finally convinced that hedge funds could play a constructive role in their asset allocation plans.

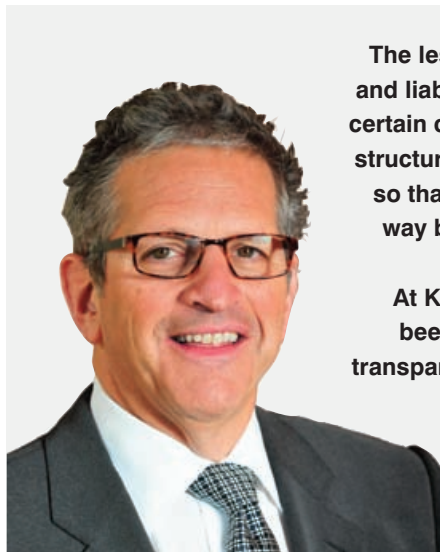
As a result, industry AUM doubled from 2004 to 2007. But this coincided with a period in which market volatility virtually vanished, prompting many hedge funds to boost their use of leverage in order to maintain returns. We now know that this helped set the stage for the Credit Crisis of 2008, which became the Year of the Gate.

Note that throughout each and every one of these cycles, many hedge funds started out with relatively well controlled risk profiles and were well positioned to take advantage of opportunities. But as performance improved, too many managers—not all, but too many—succumbed to the temptation to get over-leveraged, over-concentrated, or over-exposed.

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I believe that too many hedge fund managers and investors last year were scrambling for liquidity when it was already too late, either because they were over leveraged in the first place or because their assumptions about access to markets proved to be faulty. There were plenty of hints well before Lehman went under that it was probably prudent to reduce leverage and dial back risk.

Regarding Lesson 3: Invariably, crises create some very interesting opportunities for investors who are able to be contrarians. But you have to keep your wits about you and have some cash available to take advantage of them. All of which is easier said than done. We purposefully put off increasing allocations to credit strategies until the end of 2008, but it was really hard to actually pull the trigger when the world still looked so scary.



**The lesson everybody needs to learn from 2008 is that running a book of matched assets and liabilities is crucial. This can be structured in various ways. For example, there are certain credit strategies that should demand longer lock-ups. Therefore, you should structure a fund-of-funds with longer lock-ups and address this upfront with your investors, so that you don't have the issue of gating and locking investors out of their cash on the way back.**

**At Kenmar, the way we have addressed this issue is with managed accounts. We have been running managed accounts for 26 years now. We are great believers in transparency and liquidity in all of our products. Transparency is important in particular if you know what to do with it. It is a liability if you don't. However, I don't believe that the new move towards managed accounts is as much about transparency and liquidity as it is about custody.**

**Ken Shewer**

#### **Ken Shewer**

Mike spoke about matching assets and liabilities. In the fund-of-funds world, that was a skill largely ignored. Some fund-of-funds invested in single hedge fund managers holding positions that did not match the liquidity of the hedge fund. Stacked on top of that, the fund-of-funds offered liquidity to their investors that was greater than the liquidity that they had from their underlying managers.

This created an unknown risk that had never been tested before. I believe that going forward, the lesson everybody needs to learn from 2008 is that running a book of matched assets and liabilities is crucial. This can be structured in various ways. For example, there are certain credit strategies that should demand longer lock-ups. Therefore, you should structure a fund-of-funds with longer lock-ups and address this upfront with your investors, so that you don't have the issue of gating and locking investors out of their cash on the way back.

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People are definitely afraid of being locked out of access to their cash and losing control over those investments. Our portfolios invest in both managed accounts and directly with funds. The majority of Kenmar's investments are in a managed account format. However, we are in the business of finding the *best* manager to manage money within the strategy that we choose. When deciding between two managers, we will look for the best manager and if a manager is clearly superior and we can only access that manager through a fund, we will go ahead and make that investment.

**Matthias Knab**

**Let's deviate a little bit on the managed accounts and then come back to the other question about the learnings and lessons and the opportunities as Ron alluded to. From the end investor side, do you see an increased demand for managed accounts?**

**Virginia Parker**

We have been running managed accounts since 1996 and have had these over a range of strategies. Some are well suited for managed accounts and others significantly more complex to set up and monitor. FX, futures and equities are straight forward; the credit instruments that become popular before the financial crisis increased the burden of managed accounts considerably. The better hedge fund managers have become significantly more sophisticated in their portfolio construction over the past decade. We saw one manager evolve from a fairly straight forward merger arb book a decade ago to some highly structured OTC positions some years later – one page of positions changed to 40. Needless to say, this increased complexity demands a much higher skill set for those doing the monitoring.

We have certainly seen an appreciation globally for managed accounts following the events of 2008. This is being driven by the investors who feel more comfortable with the transparency and control. A very important aspect is that establishing a managed account lets you also choose who to use as prime broker, administrator, attorneys and auditors. As sponsor of the account, you can negotiate the investment guidelines with the underlying manager and determine how to manage excess cash and where to house it for safekeeping.

One interesting episode during 2008 involves one of our clients sharing their concerns about a particular administrator, who is part of a large bank, which I will not name, but who was feeling the stress of Q4 2008. We had a bridge facility set-up through the administrator and also a facility

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**One interesting episode during 2008 involves one of our clients sharing their concerns about a particular administrator, who is part of a large bank, which I will not name, but who was feeling the stress of Q4 2008. We had a bridge facility set-up through the administrator and also a facility for hedging requiring the trust assets be pledged to the bank. Now, this particular administrator was registered in Ireland, and so we had to become very familiar with Irish bankruptcy law.**

**The bank didn't go under in the end, it but was quite complex having kept those assets safe. We had a managed account for one of the hedge fund managers where we decided to fully redeem, and ended up keeping the cash assets in the managed account. We didn't want to send the funds back to the administrator, because we wanted to minimize counterparty exposure to the bank as best we could.**

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As with everyone else in the industry, 2008 certainly gave us a very strong appreciation of the importance of monitoring your counter-party risk, safety and control of assets.

#### Dan Rizzuto

As a managed futures manager, we have traditionally used managed accounts; it is a fairly common set-up for our type of strategy. For the reasons Ken and Victoria had mentioned, the investors are now clearly more interested in managed accounts. However, upon further investigation over the past year or so, a lot of end-investors did find out how much more complicated operating a managed account was compared to what they initially believed. Sometimes, the investors did not necessarily take the next steps due to the complexity involved and possibly due to the commitment of resources needed for running managed accounts (for example, the necessity to settle and reconcile trades daily.)



**We are very encouraged from the strong performance of managed futures in 2008. We benefited from the traditional momentum strategies, which were the dominant performers in 2008, but also from our other strategies that are shorter term and not as directional, but very complimentary to core alternative investment and traditional portfolios. This includes mean-reverting strategies or shorter-term strategies which often require the use of more technology.**

Dan Rizzuto

The industry has actually presented an alternative: the managed account platforms. Although managed account platforms may not necessarily provide all the features an investor may desire, these platforms certainly offer several key parts of the solution.

Finally, having left the hysteria of 2008 behind, the urgency for managed accounts seems to have diminished somewhat but again there is still an increased inquiry for them.

Commenting about opportunities and strategies, we are committing more capital toward the efficiencies of electronic trading and the use of technology to generate alpha. We are very encouraged from the strong performance of managed futures in 2008. We benefited from the traditional momentum strategies, which were the dominant performers in 2008, but also from our other strategies that are shorter term and not as directional, but very complimentary to core alternative investment and traditional portfolios. This includes mean-reverting strategies or shorter-term strategies which often require the use of more technology.

#### Matthias Knab

#### Who else wants to comment on current opportunities?

#### Mike Kelly

During the past year, we have expanded our capabilities in distressed mortgages (residential and commercial) and asset-backed securities. We accessed significant opportunities on both the long and short side.

In equities, we have focused on industries like financials and health care, which have been significantly re-drawn by policy changes and which have presented great opportunities for long-short stock-pickers.

Credit has offered significant opportunities from the outset of the year, both in investment grade and high-yield credit, which were pricing in extreme levels of default and recovery. Today, the asymmetry of the opportunity has abated and we are now finding more opportunities on the short side where we believe credit spreads have actually come in too far given the still poor underlying fundamentals.

Over the next one to three years, we believe event-driven investment opportunities are going to be significant. Since the crisis began in late 2007, corporate activity has been fairly muted due to the turn in the credit cycle and the closing of capital markets. Companies became far more focused on self-preservation than on growth. However, at some point, as capital markets open again and companies reassess their growth strategies, we will see an increase in strategic acquisitions, spin-offs and restructuring activity. The good news for investors is that a lot of the proprietary capital that was focused on event-driven has been drawn out of the marketplace as banks have basically shut those prop desks down. Also, the biggest event-driven hedge funds have shrunk dramatically as well.

So you will have a situation whereby there will be much more activity and supply of interesting investment opportunities while at the same time there will be a lot less capital allocated to this area.

In credit and distressed, the focus will shift from the liquidation of distressed holders of debt securities like CLOs and other securitization structures to distressed issuers of debt securities and high yield. We will see some interesting corporate asset liquidations and bankruptcies in the next few years.

Finally, there will be significant opportunities in emerging markets. Those markets now constitute 30 percent of the world's equity market capitalization, as much as the US, yet still are grossly under-represented in most investors' portfolios. And these economies will constitute much of the incremental GDP growth over the coming years as developed markets work through structural constraints. In a world struggling with little to no growth, there will be a premium placed on markets and companies that are growing. We are particularly interested in equity markets in Brazil, China, Southeast Asia and Australia. We access those markets through hiring local teams that have a deep understanding of those markets.

### **Virginia Parker**

We are active in the US energy infrastructure area and believe that this sector continues to look very attractive. There was a big run-up this year, but we believe the fundamentals remain solid and the yields very appealing.

We are active in Brazil and are in the process of putting together a Brazil focused fund-of-funds. we also prepare an multi-asset class fund in the alternative energy and clean-tech area. We have been studying the area for 5 years and investing for 3. There are significant opportunities in the area globally.

### **Ron Lake**

Credit-related strategies have been very interesting and productive this year. We believe that they will probably evolve more towards traditional distressed strategies going forward.

We also find currencies interesting, particularly in emerging markets. Traders can take advantage of volatility as currencies react not only to fundamental and technical factors but also to policy pressures that may not be reflected as well in other asset classes.

There are also very interesting opportunities in good old-fashioned traditional long-short equity strategies. The key always is to find managers that are very skillful in a particular area of expertise.

### **Brian Lasher**

We are pursuing many of the same themes – credit, commodities and equity traders. However, we may have a bit more emphasis on Asia and the emerging markets, where we have been an active investor for a number of years. Ron mentioned the large regime shifts that happen from time to time in the investing world. We concur that we are currently undergoing a change that is on par

with the panic of 1907 whose aftermath created the Federal Reserve in 1913. Although it is hard to know for sure, the shift that we see going forward is that it is likely that China will be consuming more and exporting less while the US, the previous driver of global growth, will be consuming less and experiencing higher inflation.

In that regard, China, with its own massive stimulus plans, will be at least in the background of virtually all investment decisions for the foreseeable future. Companies that are levered more to the Chinese economy or at least that are have more international revenue streams will do better. Certain sectors will generate higher growth like Info Tech – products that sell in Asia (laptops, iPhones, etc.) Eventually, emerging markets currencies will appreciate and put the brakes on their exports and economy. We are spending a great deal of time in Asia and the emerging markets to understand how we and our investors can benefit from these changes.

## Ken Shewer

Despite having the greatest respect for all of the pundits around the world who express opinions about where markets will be going, after having run investments for over 30 years, my view is that nobody has a clue. We have never been in a situation like the current one; central banks have never stimulated economies to the extent that they are today. Because of this uncertainty, Kenmar remains focused on liquid, trading-oriented strategies for today and for the foreseeable future. Given that advanced economic deleveraging is still in the very early stages, further bouts of market dislocations in the next few years are likely. We prefer smaller, more nimble managers who trade exchange traded securities and who have the ability to navigate quickly if the situation so demands.

Today, we certainly see this in the commodity space. We still see tremendous opportunity here as a result of a phenomenon that started in the early 2000s, where we had a shift from short-term cyclical supply-side markets towards more long-term secular change, creating a long-term investment thesis.

Demand could take the same role it had pre - July 1st of 2008. The phenomenon of what I would call “financial demand” for commodities threw things out of whack, and I think that will definitely change going forward.



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**Ken Shewer**

In the CTA space, we certainly like high frequency trading approaches, as Dan had mentioned before. Clearly, many investors have the same preference and are moving into high-frequency trading. Many of the big banks are there. We have invested in this area for a quite some time. Going forward, however, we see the more idiosyncratic-type of CTA as a driver of returns compared with the trend followers. These idiosyncratic and sector specific, e.g. foreign exchange and pure play commodity managers, reduce the volatility of our portfolios by diversifying the sources of return. Trend followers did extraordinarily well in 2008. They are struggling a bit in 2009, probably predictably so. But they probably have a reasonable chance to get back on track in the fourth quarter of 2009, and hopefully in 2010.

**Ron Lake**

You mentioned a preference for strategies that are more short-term oriented, which tend to be more technical in nature. Are you referring to high-frequency trading strategies, or short-term but fundamental approaches, or a combination of the two?

**Ken Shewer**

We are looking at the manager's approach to the market. It could be fundamentally driven or discretionary trading; it could be an equity long/short portfolio. However, today we are not looking for people that are approaching the market as a traditional "investor." We are looking for people that are approaching the market as more nimble "traders," because we don't believe that in this environment it is very easy to judge the future.

**David Saunders**

The markets are driven by two factors right now - liquidity and fundamentals. That seesaw back and forth creates opportunities in the marketplace. The markets experienced tremendous illiquidity last year as everybody ran away from them. That had a dramatic effect on pricing and also on fundamentals.

Then, at the same time there is liquidity coming back into the markets. That creates mismatches in prices, volatility and opportunity. As we think back a short time ago to the beginning of 2008, it was hard to put money to work as managers were closed. At the moment, just about every manager on the planet is open and looking to put money to work and on top they are pretty excited about the opportunities that they see in almost every single strategy.

**Long-short strategies probably haven't seen an opportunity this good since the mid 90s. We have a difficult economic environment, which is good for dispersion amongst winners and losers in this space. Some companies are surviving and some are disappearing. If you ran a long-short trade and shorted Circuit City and you were long Best Buy, you look pretty smart right now. Your long is the one sole remaining survivor, and this is what's going to happen over and over again as we move through this changing economic environment.**

**We have a huge opportunity in credit. You can look at the remnants of the structures created over the last 10 years, CDOs, CLOs, etc. as they start to sell non-performing bonds. The market has rolled a lot of debt forward by a year or two, but that day of reckoning is coming – this will make for an interesting distressed environment. The long-short credit opportunity is quite vibrant. Distressed managers will benefit from the supply of bonds. That also applies both domestically and internationally.**



**I also concur with Mike around event – we will see a tremendous amount of restructurings, spin-offs, M&A activity, the whole spectrum is going to be active for quite some time.**

**It really doesn't matter where you look, there will be plenty of opportunities to make money. As Ken already pointed out, what is unique about this is that it will not be required to pick the direction of the market in order to achieve those returns.**

**David Saunders**

This battle between liquidity and fundamentals is going to continue. I also concur with Ken in that I don't know where the markets are going right now. But, I know the opportunities are going to be bright in the hedge fund space. Non-traditional alternatives are going to continue to flourish.

There are plenty of opportunity available. Commodities are going to continue to be a focus in the marketplace, as well as short duration, relative value, and the fundamentals linked to commodities.

We touched on currencies, which are gigantic markets, extremely liquid - they satisfy a lot of the requirements of large institutions. There are multiple ways to play that like carry trade, systematic,



trend following, fundamental etc.

Long-short strategies probably haven't seen an opportunity this good since the mid 90s. We have a difficult economic environment, which is good for dispersion amongst winners and losers in this space. Some companies are surviving and some are disappearing. If you ran a long-short trade and shorted Circuit City and you were long Best Buy, you look pretty smart right now. Your long is the one sole remaining survivor, and this is what's going to happen over and over again as we move through this changing economic environment.

We have a huge opportunity in credit. You can look at the remnants of the structures created over the last 10 years, CDOs, CLOs, etc. as they start to sell non-performing bonds. The market has rolled a lot of debt forward by a year or two, but that day of reckoning is coming – this will make for an interesting distressed environment. The long-short credit opportunity is quite vibrant. Distressed managers will benefit from the supply of bonds. That also applies both domestically and internationally.

I also concur with Mike around event – we will see a tremendous amount of restructurings, spin-offs, M&A activity, the whole spectrum is going to be active for quite some time.

It really doesn't matter where you look, there will be plenty of opportunities to make money. As Ken already pointed out, what is unique about this is that it will not be required to pick the direction of the market in order to achieve those returns. Through hedge funds and alternatives, investors can generate an unbelievably strong risk-adjusted return without having to be a big market timer, because there will be so much internal combustion in the market with winners and losers that hedge fund manager should be able to capitalize on. So that is really a quite positive outlook.

**Brian Lasher**

One opportunity that we didn't mention is gold. What is your view about hedge fund managers buying gold – is it to store value or is it a potential investment within their portfolios?

**Virginia Parker**

I found it quite interesting when I learned last year that John Paulson was setting up a share class for one of his funds denominated in gold as opposed to the US dollar because of his significant concern about the value of the US dollar, and feeling that gold could be a good store value. There are several examples now of managers offering gold denominated shareclasses for their funds. As we look at the current situation in the US, one must be very concerned about the buying power of the US\$ going forward. G-10 countries are adding greenbacks to their reserves. There is discussion of denominating certain commodities in a basket of currencies as opposed to the US\$. The potential results are very sobering for anyone whose base currency is the dollar.

We also have to be concerned about inflation. There are many indications that at some point inflation in the US may become significant given the level of government spending. I think that traders or investors need to be ready to address the inflation once it starts to show up, which probably gets back to your theme of flexibility.

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**Virginia Parker**



## Ken Shewer

Not that I know too much about gold, but clearly there is a larger discussion to have about currencies and the potential for a declining dollar. However, we always have to remember that currencies are two trades, not one, and you need to find a stronger partner if the dollar is going to decline.

If the dollar declines over a significant period of time, gold would certainly be a safe haven. I am not sure that it is necessarily the right place for investors to run, but there is a historical emotional trend to gold at such moments.



**What we can expect is a diversification away from the dollar by people who typically held dollar-based assets over time. This will happen in small steps and gradually, due to the fact that those people looking to diversify out of dollars also hold a significant amount of dollars. These savvy investors will likely move very carefully and in incremental steps.**

**Ken Shewer**

Maybe a more telling story about the dollar is that the Chinese have started to pay for foreign goods in local currency for the first time. Over time, possibly there could be more nations doing the same. The question we should ask ourselves is if the petroleum producing countries around the world will continue to sell petroleum in dollars. Or would they look to sell it in their local currency, a basket of currencies, or would they look for a second currency as a replacement.

What we can expect is a diversification away from the dollar by people who typically held dollar-based assets over time. This will happen in small steps and gradually, due to the fact that those people looking to diversify out of dollars also hold a significant amount of dollars. These savvy investors will likely move very carefully and in incremental steps.

I don't have a particular opinion about gold, but I do believe that it has an emotional calming effect on investors when the dollar goes down and when inflation goes up.

## Mike Kelly

I think what entices investors into gold is that it is the only major asset class that has proven over the last 100 years to do well in both inflationary and deflationary economic states. Given the amount of discourse and strength of opinion on both sides of the inflation/deflation debate, gold offers the prospect of protecting tails on both sides; at least, that is part of the thesis behind it. In reality, gold has not always proven to be a reliable inflation hedge.

However, if you believe that we are likely to see inflation, there are a lot of risky assets you can get long, particularly equities, which offer a much better risk-reward. And if you think deflation is the

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**However, if you believe that we are likely to see inflation, there are a lot of risky assets you can get long, particularly equities, which offer a much better risk-reward. And if you think deflation is the outcome, then a yielding security like US Treasuries seems like the best option.**

**The strongest scenario for gold would be one in which all countries seek to devalue their currencies in a trade-war protectionist manner – then gold as a “currency” will appreciate the most. However, when you look at the controlled manner of the US dollar’s downtrend and see that the inflation/deflation tug of war will likely end up a stalemate for now, gold could end up being a value trap in the near-term.**

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**Matthias Knab**

**Any more views on this discussion? Do you have a Plan B prepared for the inflation and dollar devaluation scenario?**

**Ken Shewer**

If you look back in history to the late 1970s and the early 1980s, which is the last time we had significant inflation in the US with short-term rates about 20%, you will see that commodities and commodity currencies did extraordinarily well through that period.

I actually was trading cash commodities in the late 1970s and early 1980s, and the rush to hold hard goods in the form of commodities was tremendous. I am not a believer in inflation, certainly not in the foreseeable future. However, if we were to get into that environment and it is coupled with today’s significant growth of demand over supply, this builds an even a stronger case of commodities being a great investment.

These are blanket statements about commodities. The term “commodities” is very broad-based. Investors need to examine the sub-sectors and the correlations between them. You shouldn’t look at commodities as a single investment entity.

**David Saunders**

I believe gold also falls into my original statement about the battle of liquidity versus fundamentals. Gold should still technically be a supply and demand game. However, investors have seen it as an investment instrument and have poured tremendous amounts of money in there to use it as an inflation hedge in their portfolio. It can be very easily mispriced relative to its fundamental pricing.



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**The same can be said for oil, which for a long period of time had up \$50 premium associated with fear and the liquidity flows coming in to the different index products, which had it trading at a premium to spot by \$9 to \$10. So any time, such a commodity can become a financial instrument where it is not based on fundamentals. Then you are exposed to significantly increased volatility, mispricings etc. which are, again, opportunities for those that trade in that market.**

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**Brian Lasher**

I believe that inflation is inevitable. Inflation is the gentlemanly way that developed countries get themselves out of problems like the one we have right now, which is government debt increasing dramatically as a percentage of GDP.

To add perspective to the current environment, it is perhaps useful to reflect upon the decade following the market peak in 1972 which featured, on the whole, disappointing investment returns, large fiscal deficits, escalating energy prices and inflation – just to list a few problems. Those investors whose fears led them to perceived safety - i.e., bonds and cash in that era – suffered further disappointment as inflation destroyed real value. Those who redoubled their search for areas of opportunity fared extremely well. We continue to strive to best position the funds for a period of continued uncertainty in the near term, but significant return opportunities over the longer haul. This would not include gold, which we view as a distraction, but the many other opportunities that we have already talked about.

**Brian Lasher**



Right now we are still in a cyclical bull upturn since we “survived” last year’s financial disaster, but ultimately bull markets have always started from single digit price earnings ratios and, given that we were at the 30x price-earnings level on the S&P 500 at the end of 1999, there was a long way to go until the start of the next bull market.

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**Virginia Parker**

How big do you think is the threat that the government is going to change the regulations related to commodities trading? They have been talking about limiting the participation in some commodity markets because some people suggested that speculators were responsible for running the price of oil way up, amongst other things.

**Ken Shewer**

The run-up of 2008 probably started in the fourth quarter of 2007. As we alluded to earlier, the market displayed a premium in oil which was to some extent caused by long-only funds, indices and ETFs that were accumulating positions in commodities.

We have spoken to our managers and have done quite a bit of research on this subject. So far it does not appear that this will effect the individual hedge funds that we typically invest with.

The managers we have spoken with do not feel that there will be much of an impact for the hedge fund business. Most welcome the change and think it could lead to greater opportunities for the fundamental traders in the group since commodity fundamentals will regain a footing. However, there is always uncertainty since we don’t really know how the regulations will change. I am quite sure that there will be change. It is unlikely that it will curtail a diversified commodity hedge fund’s ability to conduct its business.

**Matthias Knab**

**Let’s continue within the subject of regulations, looking at it on a broader perspective, not just for speculation within commodities. How do you view the developments on the regulatory front? Are these issues you are concerned about? How do you think regulation will affect your business going forward?**

**Dan Rizzuto**

I agree with Ken’s comments. There’s likely something that will happen but currently both the near-term and long-term outlook remains unclear. It still appears though that allowing the market’s self-correcting mechanisms to operate over time is one of the best solutions.

I will also add that as long as the regulatory status quo remains uncertain, at least some capital will remain on the sidelines, contributing to general risk aversion.

**David Saunders**

We've actually just written a whitepaper on the potential rule changes at the CFTC, what latitude they may or may not have and if they have to go through Congress or not.

The original purpose of the commodities trading environment was that farmers, producers and consumers could hedge out risk. A farmer could hedge his crop; there were no size or position limits because people could have had a big farm, so regulators never really focused on that.

I would say there is a general sense that regulators should not tinker with that.

**Ron Lake**

There are micro issues and macro issues when it comes to regulation. One of the micro issues for hedge funds has been registration. I think it is important that hedge funds should be registered. But registration only achieves something if the regulators are actually effective in conducting examinations, identifying real problems and providing useful systemic oversight.

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**From a macro view, the important issues have a lot more to do with the overall financial system rather than hedge funds: how banks and non-banks are regulated, the extent of capital requirements, if derivative markets like CDS markets will have a central clearing facility, etc. Those larger issues will actually have much greater impacts on hedge funds and hedge funds strategies because they will affect the availability and pricing of capital and leverage. Those are issues that are much broader and much more relevant in the end.**

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Talking about regulation, don't forget that we have already seen the markets adapt in a number of ways. You could argue that the prime brokers in some ways are more effective regulating hedge funds than the regulators. Sometimes it is the margin clerk who rules the world, and not the SEC.

**Joe Taussig**

I live in Europe, where there will be a lot of regulation which will affect fund managers everywhere.

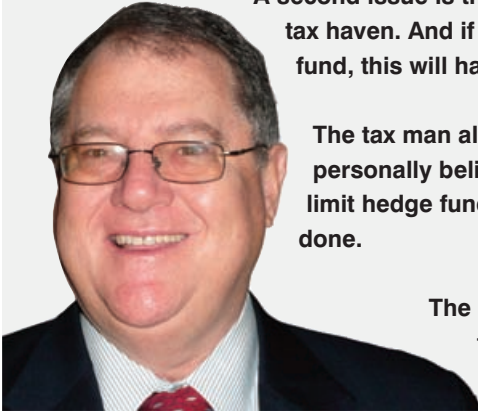
Historically, the US-based fund managers have not been regulated in Europe and have basically with impunity offered their products throughout Europe from places like BVI and Cayman Islands. This may change dramatically. If you look at the make up of the typical U.S. fund's investor base, Europe is usually a very heavy component, depending upon what the mix of domestic and offshore is.

A second issue is the change in the taxation of tax havens. There was a mooted of a fund if it is in a tax haven. And if it was managed from the US at one time, should the authorities start taxing the fund, this will have tremendous ramifications for the investors in the fund.

The tax man already eliminated the deferred compensation compensation this year, and I personally believe that at the highest echelons of the hedge fund business, this rule will more limit



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#### **David Saunders**

Just a quick comment on regulation. I think, right now, globally there seems to be a movement to coordinate regulatory activities and that is a noble cause.

However, politics begin to enter the equation. If you have seen some of the comments and points that have been inserted into the EU Directive, they effectively shut out all foreign hedge fund managers from selling into that market; this is a very protectionist measure. This is politics being inserted into a process that should be holistic and a noble cause: strengthening the regulatory framework while being aware that finance is a global issue as assets move border-to-border quite quickly.



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**David Saunders**

I think, and this is pure speculation, that when push comes to shove, there will be enough political pressure exerted that ultimately a lot of the issues will be watered down as they try to seek common ground.

Ultimately, though, if you look through all of it, the events of 2008, all came about through one thing and that was leverage. Whether that leverage is manufactured through structured instruments or whether that was just on a balance sheet, it has been the root cause of almost every single crash. You can look back to 1929 and the amount of leverage they had in stocks, or, look at LTCM speculation. You can look back at every economic crisis and the common denominator is that there was too much leverage in the system.

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Addressing this will require higher capital ratios or limiting the amount of leverage ratio. The derivative notional value from 2005 to 2007 went from \$300 trillion to \$700 trillion – it is on the Bank for International Settlement website. That money found its way back into the system, and people were just buying assets over and over again as everybody continued to lever up to try to garner a reasonable return.

To take that out of the system means having to apply a proper risk premium for the underlying assets. So, as long as someone can take \$1 and turn it into \$100, or take \$1 and turn it into \$50, we will be having these repeated blowups. If they got anything, if they achieved anything, the thing to focus on would be leverage levels through any financial entity.

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Matthias Knab

**Most, if not all of you are founders or partners in your respective companies. That means you also run a business. Not only you invest money or and you have fiduciary responsibility, you also try to survive and thrive and build your business. What are your thoughts on the future of the hedge fund or asset management business?**

Virginia Parker

This was actually a question that is asked very often, especially after the events of last year. We sincerely believe that the hedge fund industry will continue to thrive. To us, hedge fund describes a structure but “hedge fund investing” is really about a collection of strategies that are flexible, and not necessarily dependent upon markets going up, to profit. Hedge fund managers have very creative, sharp ways of investing money as opposed to long-only, and those strategies have demonstrated over time that they do have the ability to provide much better risk-adjusted returns.

We think that the fund-of-funds model will continue as well, but the fund-of-funds managers will be forced to demonstrate that they actually do what they say that they do. I think that many FoHFs have performed the due diligence and monitoring that they claimed. Unfortunately for the industry, last year it was clearly evident that some of those fund-of-funds were not following their own policies and procedures. Sadly, some of these had significant operations, harmed their clients and provided fuel for very negative headlines.

For the typical investor who wants access to hedge funds, the task of going out and figuring out who the best funds are and how to combine them in a portfolio is quite a challenge. Success requires a strong and experienced investment team. While some of the largest investors invest directly in hedge funds, most prefer to focus their resources elsewhere, since alternatives tend to be

a smaller part of their overall portfolio. Therefore we think that the model will continue to provide a strong solution.

**Ron Lake**

The hedge fund business has become far more complex over the years. That sounds like an obvious and trite statement, but I was reminded just how much more complex the business has become when I met recently with the head of marketing for a hedge fund group.

We were reminiscing about the evolution of his fund, which is about 20 years old now. It grew from a very small group of individuals running mostly their own money to a \$10 billion group with 100 plus employees. The head of marketing commented that he felt he actually spends less time talking to investors or potential investors and more time talking to his compliance officer and his head of operations in order to make sure that he correctly addresses the needs of investors, as well as regulators.

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**For example, setting up separate accounts for institutions is also a regulatory, a compliance and an operational issue.**

**Ron Lake**



For example, setting up separate accounts for institutions is also a regulatory, a compliance and an operational issue. All of those complexities have mushroomed over the years and driven the bifurcation of the industry between very large complex institutional organizations and small boutiques.

**Mike Kelly**

We expect to see a significant pick-up in investor capital flows into hedge funds, not just from a 2008-2009 perspective, but from a longer-term historical perspective. Institutions we speak with are finding it difficult to see where major assets classes are going directionally over the next several years, but understand the role and impact that liquid absolute return strategies can have in their portfolios. These strategies have historically captured much of the upside when risky assets do well and preserve capital, if not generate strong short-side returns, when risky assets do poorly. This prospect for asymmetric returns will increasingly drive allocations away from traditional long-only approaches and towards absolute return strategies.

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**We believe that between North American pensions, the top institutional fund-of-funds and family offices, there will be a significant demand and capital inflows into these strategies. The hedge fund business will continue to mature; the big have been getting bigger and this trend will accelerate.**

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The industry overall is still working through issues like transparency and on educating and providing a greater degree of advice to clients in more of a two-way dialogue than just “give us your money and we’ll manage it”. For example, we are customizing long/short equity mandates for clients looking to replace their long-only active equity allocations and working with them to monitor Beta and factor exposures. We believe the infrastructure requirements required to run such a business will be dramatically increased. Risk systems, operating procedures, audit & compliance, etc. are getting far more complex and global, and on top of that we will see increased regulations.

The hedge fund business of the future will be more mature as well as more stable and robust. The winners will be those large diversified players as well as smaller, more focused funds that source the most talented investment and business professionals. Identifying and attracting the right talent is where we spend most of our time. I have worked in the hedge fund industry for 15 years and I have never seen the availability of talent out there on both the investment and business side as we see at the moment. We are very bullish on the industry.

#### Ken Shewer

I agree with everything you’ve said. There are two predominant forces in the market right now. One is the significant investor base which wants to put money to work. The second is probably the greatest investment opportunity of our lifetimes. Balancing the two of them is very difficult and challenging. The key is finding the right people and selecting the right opportunities to invest in. All the while, we need to balance this with effective investor communications. At Kenmar, we have a managed account platform that we use for our own purposes. We recently re-designed the system to make it a bit more client friendly and offer the managed account



**At Kenmar, we have a managed account platform that we use for our own purposes. We recently re-designed the system to make it a bit more client friendly and offer the managed account platform to our fund-of-funds investors through a secure web portal for each of their investments. They will be able to see their investments and observe them in operation. They can see their accounts and the direct holdings in those accounts. The clients can do quite a bit of analysis on the platform themselves in terms of what exactly is in the portfolio. This can give them a great amount of comfort, seeing where exactly their assets are, whether they are cash or securities.**

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We are getting a very strong response to this approach and this form of collaboration. I believe that going forward such types of collaboration, working very closely with your clients, will prove very important to maintaining relationships.

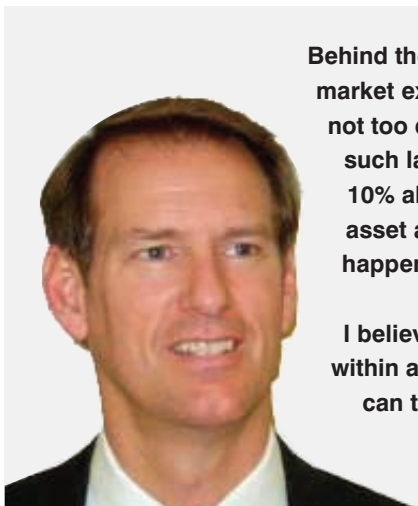
#### Matthias Knab

**Mike I like your point and hopefully this will happen, the emergence of the \$50-100 billion behemoth hedge fund or absolute return focused investment firms. At one of our recent Opalesque Roundtables in London, three of the participants came from publicly listed asset managers: Blackrock, GLG, and a fund-of-funds called Gottex. How do the participants at this Roundtable view the option of going public in order to expand your business?**

## David Saunders

I think that by going public you create greater volatility in your overall business. When things are going badly it will exacerbate the downside, and when it's going well it exacerbates the upside, because all the information that comes out of a public firm, this sort of magnifies the current situation. Just look at any chart of a publicly listed entity.

I want to come back to the question where the world may be headed for hedge funds. Our client base is predominantly made up of quite large and sophisticated institutions. I believe that there was a recognition last year that the hedge fund managers had market exposure or beta embedded in their strategies, and for years the returns masked that.



**Behind the scenes, I believe there is a shift going on. These investors are now recognizing that market exposure, which of course also exists in their core portfolios. My guess is that in the not too distant future we will see a shift that can boost the the role of hedge funds within such large institutional portfolios. Hedge funds may move out from the traditional 1% to 10% allocation in a stand-alone bucket to actually integrate hedge fund portfolios into their asset allocation model of equities, credit etc. right across their entire asset base. When that happens, such an approach really forms the basis of active versus passive investing.**

**I believe that in the not so distant future what we are going to see hedge fund strategies not within a stand-alone pool, but rather incorporated right across institutional portfolios. This can take the asset base from the traditional 1% to 10% to dimensions like 25% of your equity book, half of the credit book, and so on.**

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The traditional long-only is a passive world, with benchmarks and managers who mostly try to keep up or outperform these indices. Hedge fund managers are really the epitome of active with a bigger tool chest, they get more instruments and variables to use. They use hedging tools and mostly have asymmetric return profiles.

As I said before, I believe that in the not so distant future we will see hedge fund strategies not within a stand-alone pool, but rather incorporated right across institutional portfolios. This can take the asset base from the traditional 1% to 10% to dimensions like 25% of your equity book, half of the credit book, and so on.

The challenge will be if five years down the road the industry will provide enough managers able to generate alpha for this significant wave of money bound to come.

## Brian Lasher

Back in the early 1990s I was involved with one of the first real estate companies that went from private to public following the maturation of that market. I remember the old guys summing up their experience saying "we used to be in the real estate business, and now we are in the public company business". The same thing could pass in the hedge fund world, where hedge funds as well would no longer be in the investing business but be in the business of running a public company for the benefit of their shareholders. Maybe this model will not be sustainable in the long run.

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In regards to how the industry will mature over time, investors have been talking about the portable alpha approach for some time now. It seems that more forward thinking investors like endowments have reduced significantly their long-only exposure to certain asset classes, and then employed portable alpha strategies in their asset allocation. This is one possible avenue for hedge funds and fund of funds to grow within the institutional community.

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**Dan Rizzuto**

We’ve discussed the need for partnership with clients and also for investor education. Let me share an anecdote from a few weeks back. We were filling out a due diligence questionnaire and there was a section about our benchmark. I thought the right thing here was to actually call this client and go beyond just ticking boxes. The question here is really what do you mean by a benchmark? How do you reference your benchmark? Ultimately, through such direct communication with investors we want to understand the client’s goals, educate them on our portfolio (and our particular sector) and help create the proper expectations.

**Ken Shewer**

Another development I see happening is that we will probably see more tightly defined hedge funds and fund-of-funds. If somebody wants to invest in the credit bucket, they will look for a fund-of-funds that will be a credit-only fund-of-funds.

On the subject of going public -- if you look at the scrutiny that companies like Goldman Sachs are under right now, I am not really sure it is a good idea taking your hedge fund public. When you take into consideration what David said about the volatility of that business and Brian’s point about running a public company versus running investments under the public’s scrutiny, this may not be the ideal format for a hedge funds or fund-of-funds.

**Matthias Knab**

**Who has some new products, new initiatives?**

**Ron Lake**

There is a small but growing universe of registered mutual funds in the U.S. which walk, talk, and

There is a small but growing universe of registered mutual funds in the U.S. which walk, talk, and act like hedge funds. Many of these hedged mutual funds use long/short equity techniques, but there are also mutual funds involved in arbitrage, mergers, credit-related strategies, currencies, commodities—again, long and short—as well as other strategies. The reason that these hedged mutual funds are so interesting is that they provide virtually any US investor access to long-short strategies, but with some key differences compared to hedge funds. Hedged mutual funds have daily liquidity, are registered products, have lower fees (they can’t charge an incentive), are restricted from using excessive leverage or illiquid investments, and are structured in a much more user-friendly format.

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At Lake Partners, we have been managing a portfolio of these funds for more than 10 years in a program called LASSO® Long and Short Strategic Opportunities®. This has been offered in the form of separate accounts and institutional commingled funds. What's new is that LASSO is now also available in the form of a registered mutual fund – literally a fund of funds, but using public, liquid mutual funds rather than private, illiquid hedge funds.

**David Saunders**

How many are there and what's their total market working capital and breadth of their universe?

**Ron Lake**

Depending on how you define a hedged mutual fund, you can count about 500 mutual funds that use either short-selling or hedging in one way or another either as an integral part of the strategy or episodically. This includes short-only or leveraged ETFs, but these could be considered as a separate class of investment vehicles. Morningstar recently estimated that mutual funds using alternative strategies have attracted \$100 billion in assets.

Some of them are very small, some are actually very big. Some of those funds are run by well-established groups, for example Highbridge has a long-short fund, and AQR got into this business to diversify their own distribution system.

Apparently the additional risk management tools and alternative sources of return available to hedged mutual funds make a difference. According to a study published by the Hedge Fund Center at the London Business School, hedged mutual funds run by experienced managers significantly outperformed traditional mutual funds. It seems a “better mousetrap” is available to all investors.

**Virginia Parker**

This summer we launched an investible currency index. This is the first investible currency index we are aware of that is composed of a 50% passive implied beta index and 50% active index. For the implied beta side, we teamed up with a group in London, Black Tree, a team that spun out of Lehman where they created investible FX indexes.

I met them a number of years ago and was always quite impressed with their research, approach and performance. We are pleased about this opportunity to work together. On the active side, we have looked at the performance of about 100 currency managers, mapped them against nine different factors and came up with twelve style buckets. We allocate to ten out of the twelve style buckets.

Through the mapping processes we discovered some really fascinating aspects about some of the currency managers. For example, when we mapped some of the discretionary currency managers they ended up consistently looking like certain defined styles. We decided to put them in the style bucket they were closest to as opposed to one generic called “discretionary”.

**David Saunders**

Is that a retail or institutional product?

**Virginia Parker**

At the moment it is an institutional product; we are talking to a couple of groups about retail distribution outside of the US.

**Brian Lasher**

On our end, we continue to expand the portable alpha programs that we offer. We are also working on a credit-focused fund.

Portable Alpha is a powerful strategy which can add significant return relative to traditional

approaches. The “Perfect Storm” of 2008 highlighted the risks and success is obviously dependent upon the return of the “Alpha Generator.” However, Portable Alpha is likely to continue adding value to asset classes where returns in excess of an index benchmark have been difficult to achieve through conventional active management.

Concerning the new credit fund of funds, we are currently seeing a number of managers raise cash in the high yield market in anticipation of a market pullback that they believe will create another buying opportunity. In the mean time, managers are taking the opportunity of the current market run up to re-establish their shorts. Therefore, we see now as the right time to become more actively involved in credit especially as loan and high yield bond maturities peak in the next several years.

#### David Saunders

A lot of our effort recently has centered around customization work for clients that include beta management within the hedge fund portfolio. Some of that included beta replication and hedging. We run commodity focused as well as currency focused portfolios. Around that, depending on the client's demands, we may add a lot of financial engineering. While this has come a bad term after 2008, in fact it is very appropriate for institutions.

#### Ken Shewer

At Kenmar, within our different business units, we have new initiatives in almost all of them. Within our multi-manager businesses, in addition to our multi-strategy fund, our FX portfolio and several different commodity and CTA portfolios that we have been running for many years, we just launched a Liquid Commodity Portfolio that offers twice monthly liquidity. This product is ideal to wrap in a UCITS III structure.

As I said earlier, we recently rolled out our managed account platform, which goes under the name ClariTy Managed Account & Analytics Platform. We offer the platform to large institutions as a turnkey portfolio solution.



**We are very focused right now on the single manager seeding business. We see fantastic opportunities to invest with new managers and help them grow – not just in terms of their performance, but growing assets under management, help them grow their infrastructure and build proper businesses. We currently see a huge gap in this very exciting area where we are spending a great deal of our time in order to capitalize on the opportunities available to us.**

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To round all of this out, we just completed a major marketing and communications rebranding. We think our efforts will enable our investors to better understand the investment decisions we take and will foster even greater client communications. Check out our new site at [www.kenmar.com](http://www.kenmar.com).

#### Matthias Knab

#### What is it like to run your business out of Connecticut?

#### Virginia Parker

When I set up the business, I did not even consider New York. It is a very tough place to do anything. Connecticut is a great spot; Stamford is a real city and New York is still very convenient. We were lucky having needed to renegotiate our lease this year, where we ended up getting reduction of about 30%. This is great from a cost point of view. On the negative side, I think anyone who lives in the state of Connecticut and closely follows the budget must be very concerned that our income taxes are probably only going one way. So we have to consider how

long do we stay in Connecticut?

### David Saunders

This is a sales pitch for Connecticut. This is a fabulous location; we have three major airports and a minor one within striking distance within an hour. You have arguably 40-50% of all hedge fund assets within an hour's drive. We at K2 have offices in New York but also in London and Tokyo, Hong Kong, and Sidney.

Connecticut is a wonderful base for operations. About a year-and-a-half ago, we did a back-of-the-envelope calculation regarding the hedge fund assets just in Fairfield County, and came up with approximately \$300 billion at the time. And that's just Fairfield County and does not include Westchester and the New York City Metropolitan area. This is a whopping number when the whole universe was only at \$2 trillion.



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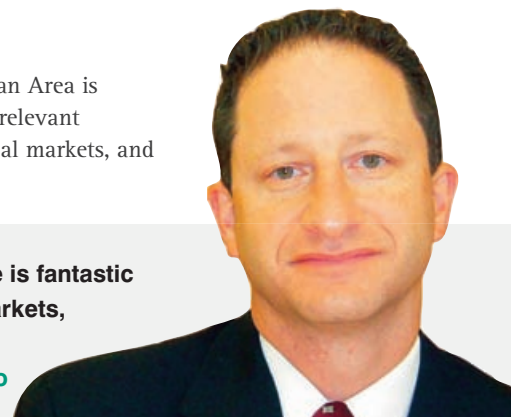
For a lot of people, Connecticut is more a bedroom community to New York City and I am sure everybody in this room will concur that a drive down the road and not having to fight the iron horse into New York City or deal with subways or other traffic congestion on a daily basis is a lot easier on your lifestyle. We are fortunate to be able to blend a great lifestyle with a great business.

### Dan Rizzuto

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# accurate

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