



Opalesque Round Table Series '10 WEST COAST

Opalesque 2010 Roundtable Series Sponsor:



Editors' Note

Dear Reader,

We have come back to San Francisco for a 2010 update on the hedge fund industry on the U.S. West Coast.

The Roundtable was sponsored by the CME Group. We also thank the Opalesque 2010 Roundtable Series Sponsors Custom House Group and Taussig Capital for their support, as well as Pillsbury for providing the meeting venue for our team:

- **John Burbank, Managing Member and Chief Investment Officer, [Passport Capital](#)**
- **Jay Gould, Partner, [Pillsbury](#)**
- **Jeremy Evnine, President, [Evnine & Associates, Inc.](#)**
- **Matt Osborne, Executive Vice President & CBIO, [Altegris](#)**
- **Ranjit Sufi, Managing Director, [Nuveen](#)**
- **Rishi Narang, Founding Principal, [Telesis Capital](#)**
- **Tina Lemieux, Managing Director of Hedge Fund and Broker Services, [CME Group](#)**
- **Tom Shanks, Founder and CEO, [Hawksbill](#)**

The Western world has run up massive deficits in an effort to stabilize the markets and economies, but the financial system has not been meaningfully repaired. The authorities have not structurally changed the financial system: "All we did was provide huge amounts of liquidity. The markets are as vulnerable to financial shocks and at least as highly leveraged than they were before the financial crisis. The Fed has more than doubled its balance sheet and will have to exit markets at some point or its legitimacy will be called into question", says John Burbank from Passport Capital.

"Armageddon" strategies and how plan sponsors have changed their game during the past 18 months

Burbank added that a number of people have asked Passport to design funds comprised of macro trades that would help them hedge against systemic risks. Jay Gould from Pillsbury also helped creating disaster insurance or "armageddon strategy" funds to which work under the premise that U.S. will experience a very difficult time over the next several years, "including hyper-inflation, the abandonment of the U.S. dollar as the world's reserve currency, further complications associated with our huge deficit spending, and a rush toward hard assets."

In this Roundtable, you will also hear from Nuveen's Ranjit Sufi how plan sponsors have changed their strategies during the past 18 months. This Roundtable further covers:

- Overview of the latest products and research from funds and CTAs on intermarket correlations and quantitative trading
- A discussion on the impact the regulatory changes will have on the markets: How will mandating more OTC products to clear/trade on an exchange impact liquidity? What is more important in a derivatives contract - liquidity or flexibility?
- The democratization of alternatives: More funds using the 1940 Act format will be offering real CTA strategies with daily liquidity
- Running a hedge fund from the West Coast: Why this location counts and where West beats the East Coast.

Enjoy the read!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Standing: Matthias Knab, Ranjit Sufi, Jay Gould, Tom Shanks, Jeremy Evgine

Seated: Tina Lemieux, John Burbank, Matt Osborne, Rishi Narang

Opalesque West Coast Roundtable Sponsor



Introduction

Jay Gould
Funds Practice

I am Jay Gould, Partner at Pillsbury and Head of the Funds Practice. I have been in this business for over 25 years and currently focus on counseling investment companies, investment advisers and broker-dealers in all aspects of the financial services industry. Prior to joining the firm, I served as Chief Counsel for E*TRADE Global Asset Management, Inc., was Vice President with TransAmerica Life Companies and Senior Counsel to Bank of America NT&SA. I started my career at the Securities and Exchange Commission in the division that regulates funds and advisers.

Pillsbury represents a broad range of clients in the investment management area. We represent offshore and domestic investment advisers, hedge fund managers, private equity funds, real estate funds, benefit plans, broker-dealers, depository institutions, and other industry participants in a variety of strategic, transactional, regulatory, compliance and enforcement matters.

John Burbank
Passport Capital

John Burbank, CIO and Founder of Passport Capital. Passport is a San Francisco-based global long/short manager with \$3 billion in assets.

Matt Osborne
Altegris

I am Matt Osborne, one of the Founding Partners at Altegris. We are located in La Jolla, California. We have two different platforms. The first is a line-up of premier hedge fund managers that we offer in single manager format and that allows investors access to managers that we regard as best of breed. Strategies offered include managed futures, global macro, long/short, and event-driven. We also offer access to a platform of managed futures CTA's in managed account format. In total, we oversee about two-and-a-half billion dollars in assets.

Rishi Narang
Telesis Capital

I am Rishi Narang from Telesis Capital. We manage a product that invests in managed accounts that are focused mostly on short-term systematic traders. I also wrote a book called Inside the Black Box that explains how quantitative trading works.

Jeremy Evnine
Evnine & Associates

I am Jeremy Evnine, Founder and CEO of Evnine & Associates, a multi-strategy, quantitative hedge fund based here in San Francisco. Founded in 1992, we provide our clients with diversified portfolios of quantitative systematic strategies including statistical arbitrage in six regions, equity market neutral in two regions, a global CTA strategy and a US-based options dispersion strategy. We offer these products through separately managed accounts, managed account platforms and comingled investment vehicles. Prior to founding Evnine & Associates, I began my career in finance at BARRA in 1980 developing their options pricing system and then moved to WFIA, now known as Blackrock, to head research.

Tom Shanks
Hawksbill Capital Management

I am Tom Shanks, President and Founder of Hawksbill Capital Management. I've been trading for 25 years, three as part of the Turtle Program under Richard Dennis and Bill Eckhardt, and 22 as Hawksbill. We are a technical, trend-following CTA. According to Rishi's recent book, we qualify as quants. We are located in Santa Rosa, California.

Ranjit Sufi
Nuveen Investments

I am Ranjit Sufi with Nuveen Investments. Nuveen is privately held and is comprised of seven different affiliates representing equity, fixed income and alternative strategies. A few of our key affiliates include Tradewinds Global Investors, NWQ, and Symphony Asset Management.

Tina Lemieux
CME Group

I am Tina Lemieux with the CME Group. I run the Hedge Fund and Broker Services Group for the exchange, where we act as a single point of contact for the hedge fund community and CTA community globally. I have been with the exchange for 15 years.

Rishi Narang

Quite the opposite, the strategies we invest in are sensitive to both the level and direction of volatility, sensitive to the level of volume, and also sensitive to what kinds of players are driving volumes. So right now we have a bunch of things working against us, but not to cry too much.

Volatility is low and declining, which hurts a lot of quant strategies, because in a sense, longitudinally, the amount that markets move is the amount you can make at maximum. So to the extent they are moving less, you have less opportunity to make money, and that's certainly true for us.

Cross-sectionally that's also true: dispersion, as it's called, is low by most measures, and as I said volumes have been low. That means we are paying more to transact for worse or less opportunities lately, which is not fun.

I think that once volatility stabilizes, at some point it seems like it needs to go to either a lower or a higher level, I am pretty optimistic.

We also have seen a decrease in the diversity of participants in the equity markets, so that volumes seem to be dominated by high frequency traders on the one hand, and by large institutions who are always buying the market on the other hand. We prefer an environment in which there is more of a back and forth among many kinds of market participants.

Jeremy Evnine

As a multi-strat quantitative hedge fund, EvA manages a variety of strategies that may suffer or prosper in different circumstances. I agree with Rishi that strategies such as statistical arbitrage may suffer with declining volatility and dispersion. Generally speaking, we don't want volatility to be too high or too low. In fact, there is kind of a sweet spot in which these quantitative strategies perform optimally, and as Rishi said, that sweet spot will depend upon a variety of factors including volume and who is driving it.

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However, as a multi strategy manager, we have the flexibility to shift assets amongst several different quantitative strategies. Therefore, if we find ourselves in an environment which is not optimal for our stat arb strategies, we may find that it is optimal for our short-term CTA and options strategies or equity market neutral strategy.

The short-term CTA strategies which we have developed in recent years prefer environments which are not excessively volatile. The quantitative models in these strategies, like fundamental, intuitively driven models, ultimately are almost entirely based on data from the past and perform optimally when current market behavior is not too dissimilar from the recent past, i.e., not too suddenly chaotic or volatile. As we can't know the future, humans tend to base their investment decisions on the recent past, whether it is impounded in a model or derived from intuitive experience. As a multi-strategy manager, we benefit from the ability to shift at a reasonable speed towards those strategies that might be prospering within a given market environment at a specific time.

Jeremy Evnine



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Markets throughout 2009 remained in substantial turmoil as a result of the financial crisis in 2008, and we observed that in this environment quantitative strategies didn't perform all that well. However, thus far in 2010, markets seemed to have settled down somewhat, and we have already seen some of those quantitative strategies bounce back with stronger performance, most notably in our stat arb strategy in the US and Japan, and our short-term CTA strategy. So to reiterate, in a multi-strat context we will naturally shift the allocations towards those strategies which are performing better in a given market environment.

Matt Osborne

Our firm represents a range of different strategies. We provide access to managed futures, global macro, event merger, and fundamental long/short equity, but I will focus with my comments here on managed futures, which is my specialty.



At the moment, our research team is working on some ideas that look at the intermarket correlations and the extent and absolute value of intermarket correlations. What we are seeing so far in 2010 is a reduction in the absolute value of cross-market correlations and the emergence of some idiosyncratic trends. In managed futures this development can have quite positive effects, as it allows managers to add positions across a number of emerging trends, rather than being concentrated in trades that are highly correlated with each other.

Matt Osborne

2009 was a very difficult year for the asset class and many of the long-term trend following managers that dominate the strategy. But we are optimistic. At the moment, our research team is working on some ideas that look at the intermarket correlations and the extent and absolute value of intermarket correlations. What we are seeing so far in 2010 is a reduction in the absolute value of cross-market correlations and the emergence of some idiosyncratic trends. In managed futures this development can have quite positive effects, as it allows managers to add positions across a number of emerging trends, rather than being concentrated in trades that are highly correlated with each other. In 2009, many markets were highly inversely correlated to the fate of the USD. In 2010, that correlation is breaking down a little. For example, we have seen weakness in the euro currency and dollar strength, but at the same time gold has remained strong in USD terms. Some of the trend-following managers are capturing these moves. While this decoupling continues, we are optimistic about the outlook for managed futures returns.

John Burbank: We are doing well as a firm and in our funds, even though we are facing the same issues that Rishi mentioned. Markets are highly correlated around the concept of liquidity, and this condition is not really what you want as a fundamental investor. Our investment strategy begins with identification of important secular themes. These themes are expressed principally through fundamental discovery of equity longs and shorts. So our strategy often demands a longer duration to see ideas through to fruition. Exogenous factors like liquidity can ruin a strategy like ours over the short-term. For that reason, we've embraced a flexible, more liquid orientation combined with robust risk management that is designed to see us through near-term volatility and allow us to realize attractive returns over time.

Let me make some comments expanding from the financial markets into the real world. Approximately 18 months ago, the market finally figured out that there was a huge systemic problem in the financial system. It took a long time, and no one overseeing the markets – the Federal Reserve, Treasury, SEC, ECB - understood what was happening. Along the way, warning signs such as the failure of the commercial paper market were ignored. Recall that Ben Bernanke told us not to worry about the subprime mortgage market in February of 2007. It wasn't six months later that credit markets imploded.

The Western world has run up massive deficits in an effort to stabilize things but we haven't yet meaningfully repaired the financial system, other than limiting regional bank failures to 240 or so. Were the market allowed to function without government intervention, some estimate that thousands of banks could and should have gone bust.

Other than Madoff, no one has gone to jail -- well, Raj from Galleon, but that was insider trading. Nobody involved in this fraud has gone to jail or even been charged.

We haven't structurally changed the financial system. All we did was provide huge amounts of liquidity. The Fed has more than doubled its balance sheet and will have to exit markets at some point or its legitimacy will be called into question.

Low intra-market dispersion is proof that investors' primary concern surrounds our financial system as a whole and not the fundamentals of any particular company. Today, markets are as vulnerable to financial shocks and at least as highly leveraged than they were before the financial crisis.

The Western world as a whole suffers from this problem, and is blinded by its own arrogance. The United States, the U.K., Europe, and Japan are all different forms of that praxis. The only large Western economy that is fiscally responsible and prudent is Germany. I can't find another large example although Australia, New Zealand, Scandinavia, and Singapore appear to be on the right.

It seems likely that a day of reckoning is imminent. It will happen when markets and/or voters push back saying "You can't do this anymore!" This is when liquidity stops.

At Passport we're devoting a lot of time and resources to analyzing the role the sovereign plays under the rules of exchanges, which can change at any time. For instance, just look at taxes. We know higher taxes are coming. What we do not know is how high they will go, how profits will be affected or the effect on incentives of the market participants.

So, on the one hand it is easy to look very short-term and say things like "Look, we have lots of companies that are attractively priced and doing better". On the other hand, you can look at the whole system and say "This is horrific, aggregate liquidity will have to decline." The reality is that nothing has fundamentally changed. And when things do finally change, dispersion will be very low and markets are going to fall.

Personally, I think we are in a very crazy and challenging situation. In effect, this is what it is like for emerging market investors. Effectively, the entire Western world has become one large, emerging market.

John Burbank



Matthias Knab

I have just come from Brazil, which was one of the first countries to leave the recession. It's growing again, it's humming. They did all the reforms in the 90s when they had their hyperinflations, banks going bust, and now they are reaping the seeds. They have stability, there were no bankruptcies or government intervention during the financial crisis of 08, their markets are growing, the middle class is growing year to year, and all are positive on their outlook.

And then from São Paulo, I flew into Dallas, Texas, and walking around downtown, Commerce Street, Main Street, Elm Street etc. it seemed like the recession closed 50% of all shops down there at the street level.

John Burbank: Right. It is the difference between a nation that learned from past mistakes and one that borrows the world's savings somewhat indiscriminately, leveraging up and pricing capital too cheaply. Countries like Brazil, India etc. - with a history of inflation and crisis - could not borrow because they were too volatile. So they imposed fiscal discipline and today are very well positioned.

Among developed countries, Australia is an interesting exception at the moment. Although consumer lending seems to be excessive and there is a ridiculous housing bubble, their considerable resources, low aggregate debt (government debt in particular), strong savings and sound investment plan make them look pretty good in aggregate.

The dilemma we are facing is that people in the developed world still arrogantly believe their system of government can provide unlimited entitlements despite the fact that people are not actually paying for them. On the other end of the spectrum, in places like China no one expects much of an entitlement and subsequently saves a lot, enabling them to withstand a lot of pain.



There are a small number of safe havens with small populations that should cope with this systemic global imbalance better than most: Canada, Norway, Australia, New Zealand, and China.

John Burbank

Matthias Knab

John, that was a great analysis, and I think quite a few people in this room and outside of it will agree with your views. Now, as a hedge fund manager, how do you invest and navigate in such a situation?

John Burbank

We are today in a situation where you need to understand what governments in Washington D.C., Beijing, and Europe are going to do. It's like watching the last table of the World Series of Poker. The decisions made there and the final outcome are all that matter. So we don't know what to do until we understand what the Fed, the Treasury, the PRC and ECB will do.

Tina Lemieux

What impact do you think the regulatory changes will have on the markets? For example mandating that more OTC products clear/trade on an exchange? Do you think this ultimately will kill liquidity or increase liquidity? Or, does it remain to be seen in terms of how it plays out in the market?

John Burbank: I think we have a massive problem with derivatives. Part of it is the paradox of responsibility. For example, when someone tells a lie and gets caught - does he now tell a bigger lie or does he own up for what has happened? Assume he tells a bigger lie. That gets him to a second decision point where he needs to decide again - tell a bigger lie or own up to what happened. I believe we are on the fifth or sixth lie with respect to derivatives, and the issue at this point is that owning up to it will have massively deflationary consequences.

But if you prolong the lie, then you pass it to the next administration or you create a moral hazard. In other words, you decide to protect yourself and let other people pay for it. There is a lot of that going on.

If we chose to live responsibly, then we implement a proper accounting for derivatives, with lots of transparency and clarity. But that likely means unearthing the huge losses embedded in the system, which the large banks are not going to want to take, since they will not have sufficient funds to cover the losses.

Take for example the government sponsored enterprises (GSEs), whose debt is now explicitly guaranteed by the federal government. Although they are for all intents and purposes bankrupt, they are kept around in name and substance, mainly in order to keep their several hundred billions of debt and losses off the federal balance sheet.

There are very few people in Congress who actually have financial competency - I am trying to measure this right now and quantify it. We ask how many have a degree or experience in business that would grant them some form of deeper understanding of finance? The early indications are that there are hardly any. When I speak to the people in Congress who are financially literate I ask them how many of their colleagues have comparable experience or training. You'd be amazed at just how short that list is.



John Burbank

Jay Gould

On the other hand, if you find people who have financial competency, that doesn't necessarily ensure they will make responsible decisions...

John Burbank

Exactly, and that's the problem. We are talking about very sophisticated financial realities and implications. I mean, we may understand them, but they don't understand them. How can they make judgments on things they don't understand?

Jeremy Evnine: Well, they can get good advice from former Goldman Sachs officials. Let me just give you an example from a much narrower context.

On the eve of Black Monday, I was managing \$13 billion in portfolio insurance for what was then WFIA (later BGI and now BlackRock). Through the use of dynamic put replication, we were attempting to insure our investors' various equity portfolios, many of which were quite different from index funds. At the time, we had wished that we'd had a futures contract which tracked our clients' portfolios exactly so that we could hedge our book more precisely. However, what I came to realize was that the important thing was not having a contract that exactly matched the assets we were trying to hedge - the more relevant characteristic was having something close enough, but highly liquid. Using a combination of S&P, NYSE and ValueLine contracts, all of which were fairly to very liquid, exchange traded and FCC settled, we could get a second order approximation that was "good enough", in the sense of tracking the clients' portfolios. Getting more exact hedging vehicles we initially thought we'd wanted that were not liquid, not exchange traded and not FCC settled would have been a bad trade-off.

Let's look briefly at the issues we have at hand now with those various CDO tranches from which players like Magnetar and Paulson were constructing or cherry-picking pools with exactly those mortgages which were most likely to fail. I believe that all this tailoring and monkeying around - where every single thing was so uniquely tailored - actually didn't

really do people any good.

I used to have a software company that built trading and risk systems primarily for tier one investment banks. At some point I learned that one of the very big banks that was active in the credit arena was settling all these contracts by using an army of accountants in the basement working on each contract as a "one-off" in spreadsheets. I thought this whole system would soon come crashing down on us because there would be a settlement failure at some point with big domino effects. In the end, it did all come crashing down, although not for the reasons I initially imagined. But it made me think, just as I'd realized back in the '80s when managing portfolio insurance strategies, that what we really need is not carefully tailored, and ultimately illiquid, contracts which suit only a handful of investors, but rather a very small number of very generic and clearly understood contracts, where all market participants really understand the risk and rewards from trading in that contract. With a very limited number of contracts, we would benefit from much greater liquidity compared to having lots and lots of tiny little specialized contracts where the liquidity in total may be reasonably big, but the liquidity in each one might be rather small.

I remember years ago having an argument with somebody who was one of the designers of the bond futures contract. I said to him "look, you have this problem where the short has these four different options which makes it so complicated, which is not good for liquidity.." And his response was "no, you see, when you make it complicated like that, that gives the floor traders a reason to think that they can make money off the outside world..."

And I replied that "this is not a way to design a contract. If you want this contract to succeed, what you want is that all market participants are using them at high or reasonable volumes. Forget the floor traders, they are just facilitators, you should not be in the business of making them rich. What you want is something that all those other people understand, where they are not getting confused by all these different delivery options, where there isn't all this ambiguity..."



I think designing instruments like that can still be done. I don't think there is anything necessarily evil about derivatives per se. Rather, they should be kept relatively few in number, they need to be exchange-traded and centrally cleared. You need to have a clearing corporation that becomes a buyer to everyone's seller and a seller to everyone's buyer. In that way, everybody will know what it is they are using to hedge or speculate, which is only legitimate.

Jeremy Evnine

Tina Lemieux

Jeremy, what is also helpful is standardization of the products, which can increase liquidity and transparency. The electrification of trading has also helped by providing broad distribution of the products to market participants. For CME Group, we provide a very open and transparent system. I think that's important.

I think you are absolutely right that having a clearing house stepping in between the buyer and seller helps to mitigate counterparty risk.

Rishi Narang

What is your view of FLEX Options? FLEX Options are exchange traded, but highly customized. They are not very liquid, but they are exchange traded. It sounds like there is an emphasis on achieving liquidity as being the whole point of standardization.

However, regular listed options aren't really all that liquid, although they are standardized and exchange-traded. I don't find options on stocks generally to be very liquid - maybe for small size in the more liquid stocks, but when you get far out with the strikes and expiries, or into less than the top-tier names, you can just forget it, they are not liquid.

Jeremy Evnine

They are not liquid, because once they get far out of the money; they are not terribly useful to people trading.

Rishi Narang: But what about CDSs? By definition, they are really deep out of the money puts, aren't they?

Jeremy Evnine Yes, and probably some people should not be trading in those either.

Rishi Narang Exactly, they don't deserve to be that liquid. So that's the one thing, I don't know that liquidity in and of itself is a goal. Or put it otherwise, I don't know why it should be the goal...

Tina Lemieux I don't think liquidity is the endgame. So what's the endgame?

I think we should look at three areas. Certainly liquidity is important and some markets are more liquid than others. We have CME ClearPort, which is a comprehensive set of flexible clearing services for the global OTC market.

The second area is transparency, and the third, and perhaps most important is the mitigation of counterparty risk, here we have the clearing house stepping in and taking that risk.

Matthias Knab

Ranjit, I was asking John, how does he navigate in these markets. What are your observations here?

Ranjit Sufi I think I will focus more of the demand side of the equation, since I am closer to that.

I used to be a plan sponsor, and when I look back over the past 18 months, there is a clear dramatic shift away from how things were done in the past. Historically, plan sponsors were for the most part more strategic and had a small component of their asset allocation tactically allocated. But, over the last few years, we have seen more buyers out there that became extremely tactical in their investing. A large subset of institutions are changing their approach to be more tactical, where they can actually rotate in and out quickly and be very opportunistic.

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In fact, during the whole credit crisis per se, many investors were very opportunistic. Sophisticated early investors were being tactical and moved money very quickly out of credit and opportunistically bought into other areas.

But what worries me the most is a larger group of institutional investors jumping into the tactical game right now. These large asset pools have multiple stakeholders and gatekeepers with a limited skill set to assess the complexity of many of these products. All of a sudden you see a trend in this group when it comes to new products, whether it is an alternative type or distressed type of product. Easy money has been made by the early movers, and now the larger but less nimble institutional investors are moving into products where inefficiencies have been exploited.

Ranjit Sufi



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group when it comes to new products, whether it is an alternative type or distressed type of product. Easy money has been made by the early movers, and now the larger but less nimble institutional investors are moving into products where inefficiencies have been exploited.

From a demand side, we are seeing interest in energy investments, resource based strategies, precious metals to non-precious metal investing, concentrated portfolios, benchmark agnostic strategies and floating rate related credit strategies.

We also see more sophisticated investors trading into illiquid investments sacrificing short-term liquidity for upside capture. They are looking for opportunities, not just in energy, but in areas like water rights. We also see renewed interest in real assets and areas such as timber.

Tom Shanks

Rishi and Jeremy mentioned the current low volatility environment. From the standpoint of a trend following futures trader, I have a slightly different perspective with respect to recent volatility. I kind of like low volatility markets for our style of trading because I see that in terms of a spring coiling, building expectation that can be captured as volatility rebounds. That opportunity may be more eventual than imminent, but it's there. Also, since our systems are designed to capture volatilities rather than absolute price moves, a smaller price move in a low volatility environment may be as profitable as a bigger move in a higher volatility environment. Sideways we're not crazy about, but low volatility is ok.



Longer term, we are very optimistic. To put it in California terms, there are fault lines all over the geopolitical and economic landscape. The still-growing economic and political influence of China, the tensions surrounding the nuclear status of Iran, North Korea, and Pakistan--the instability of the Middle East in general--the impact of global warming, the debt crisis in Europe, the ramifications of quantitative easing on the eventual value of the dollar...another shift along any of these fault lines, or a long list of others it would be easy to come up with, could give rise to significant economic dislocations. While many trading approaches, relative value and stat-arb among them, are designed to discount the effects of such beta movers, trend-following and global macro approaches are designed to profit from them. Managed futures has a consistent history of profitability and protection in such circumstances, hence the optimism. To my mind, though admittedly biased, the arguments in favor of having managed futures exposure in a portfolio have never been stronger.

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Matthias Knab

In this environment, how else is asset allocation changing?

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Management Association

John Burbank: We observe a clear move on the part of pension funds and other institutional organizations toward the hedge fund universe. For example, one of our investors asked us to modify our core strategy to allow them to use it as a substitute for long-only. It's amazing how long it's taken many large institutional investors to recognize the constraints associated with long only investing in efficient market space.

That is a pretty big shift, and I believe the trend will continue. I also agree that people are now more tactical, and therefore are looking increasingly to global macro. In my view, global macro means having a reason to be long or short something that is bigger than a fundamental stock view.

But over the past decade there was an absence of concern because most investors were on the right side of the global macro climate anyway. But ten years later, people realize that they are on the wrong side of the macro, and things are not getting any easier going forward. Therefore, in this environment, investors need to learn more, need to be more aware and more tactical, and both diversify and hedge themselves.

From an industry perspective, hedge funds should get a greater part of the institutional pie. Part of the reason for this shift is due to the way the long-only industry has pursued its business model, sacrificing returns for asset based fees. I personally am very bullish on the hedge fund industry, regardless of what happens over the near term. The hedge fund asset class is rising to the challenge, whereas I don't necessarily see the long-only model rising to address the institutional investors' needs.

John Burbank



Matt Osborne

Our firm has a broad client base. We serve financial intermediaries, such as the registered investment advisors and independent broker-dealers representing high net worth investors, and we have family office and fund-of-funds investors investing through our firm as well.

At the financial intermediary end of the business, we see a huge demand for alternative investment strategies, and a lot of that demand is for liquid and transparent alternatives. This is an ongoing trend towards the democratization of alternatives.

You see similar dynamics in Europe with UCITS III products and the registered 1940 Act products in the U.S. Historically, there has always been a compromise between the demand for liquidity and transparency versus the investment talent available willing to package itself into a 1940 Act public product. But we think that is changing, which is a positive development for the end investor who finally gets access to higher quality alternative investments.

My guess is that the Passports or Brevan Howards or John Paulsons of the world are not about to launch mutual funds anytime soon. I think there will always be demand for superior investment talent from sophisticated investors willing to pay hedge fund fees to access that talent. But we believe that the talent and performance gap between the high-end hedge fund universe and the mutual fund universe is beginning to close. This is good news for the end investor, who I think deserves an asset allocation model that includes access to high quality alternatives.

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Rishi Narang: We run a fund of managed accounts and have been investing in separate accounts as a firm for about five years, and in my career going back to 1996. Back in 1996, the managers that would give you managed accounts were managed futures.

And what we have seen is, three years ago, four years ago, there were legitimate questions raised about adverse selection, when you are picking among traders that offer managed accounts, I imagine those questions are only amplified when you talk about the 40 Act [EDITOR'S NOTE: This refers to the Investment Advisers Act of 1940] or UCITS guys, but especially 40 Act products.

But Madoff really did us a favor in a sense: big brand name hedge funds - I want to be clear that it doesn't necessarily mean they are the best, but they are certainly perceived to be the best - are now at least willing to entertain, if not actually willing to do separate accounts, whereas before they never have.

Today, we certainly face the question a lot less often about adverse selection than we did two years ago. I should be clear in saying that I have never found it to be a huge problem, because actually I think investment talent and asset size aren't necessarily so co-linear as it is generally believed. We also see a trend towards not just increased liquidity and transparency and another thing which is thought to drive adverse selection: lower fees.

Some large multi-strat funds are seeing their asset base down 30-40% year-on-year, with more redemptions in the pipeline and gates in place. That is pretty incredible considering the performance some of these guys have generated. None of them was a headline blowup guy but rather they were among the winners over the past two or three years. In my view, this is really an expression of investors signaling they are ready to make a tradeoff of better terms in exchange for lesser managers. They are not willing to take worse terms anymore.



Rishi Narang

Ranjit Sufi

On the same line, we are aiming to be more selective in terms of who we do business with, while we also want to prevent the rotation that is occurring. To John's point about investors moving from long only into the hedge fund format, I believe what supported this over the last ten years is the better isolation of manager skill.

Investors now often demand customized mandates and ask for a concentrated long-only equity portfolio. We have had many large institutional clients including some sovereign funds that have approached us for that.

One of our affiliates is a benchmark agnostic, which is a big differentiator. The institutional marketplace has always been styled and "boxed" - that is also changing fairly quickly. We at Nuveen benefit by having multiple strategies, so we can take advantage of certain market conditions.

The outlook for our business is positive. I think the biggest risk that we have with a number of our

key investment strategies would be just how quickly we deploy cash. We work with clients asking for more flexibility in managing cash versus staying fully invested or putting it into existing holdings or potentially marginal ideas, which is not what you really want in such an environment.

Jeremy Evnine: If you look at the pension and institutional worlds and go back in time say 20 years, they generally invested in three asset classes: stocks, bonds, and real estate and the only real question was how these institutions allocated among these asset classes. From these three broad factor classes, these institutions gained beta exposure and perhaps squeezed out a little alpha on the side from active management. With hedge funds moving into the picture over the last decade, pensions and large institutions have realized that there are actually a lot of other asset classes and systematic factors to which they can be exposed. I believe - and this is happening very slowly, but I do think it is happening - that pension funds are beginning to view the investment world not as a mix of asset classes, but rather as a set of exposures to various systematic factors.

Today you hear phrases like "risk budgeting" which you never heard 20 years ago. The institutions are coming to understand the exposure to broad risk factors, whether it be U.S. equity market risk, volatility risk, credit risk etc. or whatever kind of risk it may be. At the same time, these institutions are increasingly realizing that hedge funds can be used to give them exposure to various risk factors, and potentially even "market-time" some of these risk factors. It is exactly this market timing which investors hope to achieve through their global macro managers. Once you've exploited all of these factors, the only thing that's left is the true alpha, the bit that doesn't come from any of those systematic factors.

This movement towards alternatives is happening very slowly, we can't expect a kind of revolution here in the next two or three years. This is very casual empiricism, but when I look at Canada, it seems to me that institutional investors, the big allocators, seem to be a bit ahead of the game when it comes to a differentiated view of investing that includes risk factors and alternatives.



Jeremy Evnine

John Burbank

Correct, the overarching trend we see from large clients is that they are becoming less focused on traditional public market strategies and moving toward higher Sharpe Ratio strategies.

Jeremy Evnine

Right and I wonder why it is different in Canada. I really don't know whether there are some cultural or educational factors at play...

Jay Gould

Canada is culturally distinct from the U.S. in the way that pension funds are viewed and managed. In the U.S., pension funds have been managed by people that are not necessarily sophisticated in financial or investing matters. You see that with Taft Hartley Plans and with some of the public plans as well. But these people are still fiduciaries and must satisfy their obligations to the beneficiaries as well as protect themselves from personal liability. This has contributed to great proliferation of intermediaries and consultants and the attendant abuses that have come with that system, some of which we are starting to see and more of which we are sure to see in the coming months. This willingness for public and other pension funds to be a source or revenue for everyone except the beneficiaries for which the plans were intended is not inherently a U.S. phenomenon, but we do seem to have excelled at it.

Pillsbury represents many of the largest pension funds in California, as well as on the East Coast and has extensive experience in connection with investments in private equity, real estate, venture capital, infrastructure, and hedge funds and other alternative investment products. The members of our team, each with over ten years experience in complex securities transactions, have superior negotiating capabilities and are intimately familiar with current market practices and trends. Because of the funding mismatch to future obligations, we see many pension funds allocating more to alternative investments, but with more concern regarding fees, liquidity and transparency.

Fund managers are typically more willing to lower fees on larger allocations, and the separate account structure is now being used to address the liquidity and transparency concerns. Liquidity is double-edged in that pension funds may not be as concerned about liquidity as long as they are in a separate vehicle and they can buy down fees, however, the strategy has to command the lack of liquidity.

Tina Lemieux

Many pensions here and in other parts of the world are now underfunded, and they realize it has become more difficult to meet their pension liabilities, a situation that really has escalated over the past few years. The pension managers realize they just can't just invest in bonds, stocks, and real estate in order to meet their liabilities. They have to expand outside, and have found that moving into alternative investments allows them to seek alpha in non- traditional asset classes.

Ranjit Sufi

I believe that alpha-beta separation will drive changes and developments as we are observing. Investors that have a sophisticated understanding are buying beta very inexpensively. The smart investors are seeking alpha from skilled managers. If they have the resources, they can find hedge funds for the alpha, or they go to a manager and ask them for a long-only variation, or they are target some of the illiquid investments we discussed earlier, which have higher alpha targets.

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Ranjit Sufi



I believe we can also discover a structural factor when we compare the U.S. to Canada. In Canada you have a smaller pool of larger, sophisticated investors who share knowledge quicker given the size of the Canadian marketplace.

Jeremy Evnine

Regarding the alpha-beta separation, even though people have talked about that for a long time now, it still has a long way to go, no? There is still way too much talk about such and such fund being up x% last year, and yet nobody is really looking at the beta of that fund with respect to cheaply bought systematic factors. Was that fund's performance substantially market driven? There is still a lot of beta masquerading as alpha out there.

Ranjit Sufi

I would agree that many of the investors are still getting the beta, and a very small percentage are actually the ones that are able to target true alpha production. Take a look at many of the larger asset managers that are managing asset bases which are excessive and become an expensive form of beta. There has been a movement towards asset gathering over the past 10-20 years. Smarter firms that have a more sustainable business model are sensitive to managing capacity.

Tom Shanks

Some reports say a lot of the pension funds have predicated their funding on return assumptions that turned out to be unreasonable. A lot of these pension funds are now significantly underfunded because of their failure to meet these return targets. How do you think they plan to deal with this? Will they adopt a more aggressive investment posture to try to make up the shortfall?

Jay Gould: I regularly speak at the annual conference for the National Association of Pension Plan Attorneys. Last year, I was talking with the internal staff at some of the public pension plans for some very significant state plans. Many of these funds are 50% underfunded or worse.



So Tom, to your point, if their assumptions are x and their returns are x minus, these pension plans are now forced to increase the assumptions just to get to where maybe they can delay the problem for another 15 to 25 years until they reach a crisis where obligations cannot be met. While 50% may be extreme, many other pension funds are not far behind, and so they needed to change their assumptions and look for investments where they can get a higher return than essentially indexing.

Jay Gould

Tina Lemieux Illinois is in really bad shape. In response, they have had, for example, been forced to fire teachers, because they can't meet their pension liabilities.

Jeremy Evnine But remember, if they fire teachers now, the consequences won't be felt for another 25 years.

Tina Lemieux Correct. It is very sad but that is what is happening.

Matthias Knab Meanwhile, while the funds would like to diversify and go into alternatives, they have to match their current outflows and have little or no money left for new allocations.

Lets move on, who of you is currently launching a new fund or new products?

Tina Lemieux: We don't have a fund, but we listed Long-Term U.S. Treasury Bond futures, called Ultra T-Bond futures, in response to the shift of the U.S. Treasury Department toward greater issuance of long term bonds. The Ultra T-Bond futures gives market participants a more direct way to manage long-term interest rate risk and add duration to their portfolios.

We have had a tremendous response to this product. After only four months of trading, open interest is over 100,000 contracts, a strong indicator that this product is being utilized to hedge interest rate risk.



Tina Lemieux

Ranjit Sufi Crossover Energy, that's both long-only and private equity, is one of our new products that has interest, and is also a pure-play natural resource strategy. We do see the CLO market reopening.

We have developed some of our long-only managers into the long/short format, the reverse of what John had indicated.

Tom Shanks We have no new product in the pipeline, but have been devoting the last several years to applying the available technology to operations and are reaping the benefits of that.

In essence, any investment operation is a data management business. Our emphasis has been on integrating the vast amount of data required to trade, and building and honing tools that allow us quickly to answer any question we can think of having to do with our trading exposure and

profitability, our systems, and our orders. The decision to build rather than buy has given us a degree of customizability that we find advantageous. The development work has been fun, and the tight level of control that the tools give us has made trading itself more rewarding than at any other time in my career. This may in turn lead to new products, but none are currently in development.

Jeremy Evnine

Throughout the firm's history, we have continuously developed new products and expanded the range of existing strategies. One way we have done this is by expanding our models into new regions -- we began trading stat arb exclusively in the US in 1992 and now trade the strategy in six regions including the UK, Europe, Japan, Canada and Australia. Other areas of innovation include adjusting risk controls, time horizons etc. One area we are working on right now is factor tilting or factor betting, which is also referred to as equity market neutral. We are innovating there by lifting the strategy into a much higher frequency. Most of the equity market neutral strategies out there tend to have average holding periods of anywhere between three to twelve months, whereas we are looking at daily factor trading. This is somewhat unusual, and so we have actually found tremendous value there, which may just be a reflection of the fact that not a lot of people are doing that.



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Jeremy Evnine

Matt Osborne

I spoke before about the democratization of alternatives, and one development we are very excited about is that after a few months of research into the regulatory environment, we believe it will be possible to put managed future strategies to work in a mutual fund format. I am not talking about the simple index type strategies that might trade once a month, but real CTA strategies and track records blended into a single product and available in a 1940 Act format with daily liquidity. We think this is really an exciting trend for asset managers and investors.

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Matt Osborne

John Burbank: We have been asked by a number of fairly large institutions to create discreet vehicles with certain features different from our funds, but with similar risk/return objectives.

There is also a lot of interest in what could be called disaster insurance. A number of people have asked us to design funds comprised of macro trades that would help them hedge against systemic risks.

For example, a fund could invest in a strategy that would match deflationary risk and one that would match inflationary risk. If you are a bond investor, you care about one, and as an equity investor, you care about the other.

There is demand for such a service. It is a bit tactical, but investors realize there are a lot of other things to think about now. These investors then approach managers who they think have the skill and flexibility to create responsive and effective strategies.

It is a mistake for investors to believe that their standard investment vehicle will be the right vehicle ten years from now. The industry will continue to evolve and change, and the bar is slowly moving higher. Things work for some time and then they do not. Next is a step function change of behavior, which puts you on a new, higher, normal level.



This is happening in the markets and with investors. Managers are changing behavior and trying to design strategies that can work on a broad basis, and then sell that to a whole new class of investor. In this case, these new strategies will be taken up by very large institutions who themselves are not yet up the curve to do these things on their own. There is a change of attitude involved as well. While before, some may have thought of the hedge fund industry as too risky and comprised of questionable people, investors, including even parts of the media, are recognizing the value we bring to the table. It just makes sense.

John Burbank

Jay Gould: Just in the last year-and-a-half we have seen three strategies dominate the start up market. We are representing a new long/short equity client with a technology focus, but more broadly, there are three categories of funds being launched right now.

One is distressed, you can call it distressed, corporate distressed, real estate distressed, but the strategy is generally looking for undervalued or distressed plays as a result of the market meltdown of the past year and a half. These strategies take many different forms and focus on various types of assets, but they are distressed plays. They might focus on the CLO market, the mortgage backed markets or in physical real estate. They could be structured as hedge funds with an attempt to provide some liquidity, or hybrid strategies that feature elements of hedge and private equity, or they could be true long lock up private equity strategies.,

I believe we touched on this before, but a lot of the opportunities in distressed, are either gone or they never really materialized, so people are really having a hard time implementing some of those strategies, depending on where they fall on the curve in distressed. But managers who have been in this space for a long time and understand that there are multiple opportunities along with capital structure in any number of companies, and who are willing to do the “deep dive” into the fundamentals, those are the distressed fund managers that we see as having significant success in this area now.

The second area is, of course, China, we have probably organized four, five China strategies recently. There is no doubt that China will dominate the investing landscape in the years to come and many fund managers are trying to

determine the best way to approach a China strategy. We have an office in Shanghai staffed with lawyers who understand the new China partnership law, the currency conversion considerations, the China limited partnership structure and other China regulatory issues that affect fund managers seeking to pursue a China-related strategy. We will be sponsoring a program on China investing in our offices on May 19, which promises to be very enlightening and informative.

The third category perhaps represents a form of disaster insurance. Some people refer to it as the “Armageddon strategy.” We have represented four or five of these funds, which believe that the U.S. is in for a very difficult time over the next several years, including hyper-inflation, the abandonment of the U.S. dollar as the world’s reserve currency, further complications associated with our huge deficit spending, and a rush toward hard assets. This strategy focuses on gold, but has also been expanded to include other precious metals, as well as non-precious metals, timber or other physical commodities.

These are becoming very popular, and I sometimes wonder if the Armageddon strategy is not really a subset or related to the China strategy. It does give us a view as to the investor sentiment and the view of the world of some very smart managers.

Jay Gould



Matthias Knab

How does being on the West Coast help you in your business? To what extent this is beneficial or special being here on the West Coast? And secondly, what is it like attracting investors into your firms?

Jeremy Evnine

Well, I mean, wouldn't we all rather be living in California than, say, London or somewhere where the air space is shut down from time to time?

When it comes to attracting investors, being in California can add an additional challenge simply due to the fact that investors typically want to physically visit your offices for due diligence purposes. From some investors, most notably European investors, we'll hear "Well, we get over to the East Coast four times a year, but on only one of those trips do we ever come out to the West Coast, and unfortunately, we were just there two months ago, so you know, it's going to be another ten months until we get out to the West Coast..."

The reverse can be true for Asian investors. For them it's easier to get to the West Coast, and the East Coast is a much bigger trip. But this counter-effect is probably not quite symmetrical, because the center of gravity is more towards the East Coast.

In terms of hiring, there are a lot of very talented people locally (due to the excellent universities) and from other regions who want to live in the Bay Area.

Rishi Narang: I definitely have seen that investors are reticent to make the trip to Los Angeles. Usually, there have to be multiple things calling them to the West Coast before they make the trip. But, there are a couple of benefits and reasons we are here. There is this perception in California, and commercials do not help, there is not much else here but movie stars on the beach. I mean, it would be nice if my life was like that, but it isn't, right?

I mean, I wake up, I walk to work - I don't know if anyone remembers the old Dunkin' Donuts commercial where the guy wakes up, he turns to his wife and he says, "time to make the doughnuts," and then in the middle of the night he comes home, he climbs into bed and he says, "I made the doughnuts". This is my running joke with my wife, and pretty much how life is when you work in a business where your hours are ridiculous.

So, we work really hard, but it is nice that when I walk outside: it is not snowing, it's not 900 degrees and humid and I am not surrounded by a combination of rats, concrete and garbage bags on the street together with a bunch of angry people in a giant hurry. I mean, I am from the East Coast, they have good pizza and the Yankees, but everything else I like a lot better here.

I would say that we have two huge benefits. There is a lot of talent that comes from California and loves California. We've got great schools here and many smart people who are from here. When we want to hire someone, the talent level we have access to is stupendous, and there is very little competition for them. That is a huge benefit. I am not competing with SAC and D. E. Shaw for people, because they do not have an office in LA. Rather than fighting for candidates, we are constantly getting calls from people working at big firms elsewhere and looking to make the move.

The other benefit is that we are not in a mix of information as much, which really is good and bad, right? But it means we are not in a crowded trade, or not that much in a crowded idea or crowded manager. I believe there is a tendency for original thought on the West Coast that I do not see as much of on the East Coast.

Rishi Narang



Matt Osborne

Notwithstanding the high Californian tax rate and the likelihood that it may indeed go higher, we are very fortunate to do business where we do. Our office is perched on the side of La Jolla Cove; it's classic Southern California. To Rishi's point, we have recently hired a Chief Operating Officer and a Chief Marketing Officer in the last nine months. We have brought both of those people out of Manhattan to join our firm, and they have been very, very pleased to make the transition.

We don't have a problem attracting quality people from all over the country. Our customer base is countrywide, and a lot of our domestic clients are happy to come to us and make the trip, but I agree that we naturally see less people from the East Coast or Europe. Conversely, the West Coast is obviously more accessible to investors from Asia.

We have 70 motivated employees at our company. A core value that attracts people is the work-life balance that we can offer because of our unique location. The lifestyle that we have available to us is pretty special. Our people can work really hard and then the sun is still shining outside when it's time to go home and be with their friends and family and enjoy their sports and recreation. It is a pretty unique opportunity to be in the alternative investment business, located where we are. So I think we are very fortunate.

John Burbank: Over the last 30 years, far more wealth was created on the West Coast than on the East Coast. For the money management industry, being near such a vibrant wealth creation center, which in California not only includes technology but to some degree life sciences etc., is an important factor. You could almost say we here are in closer contact and as a result are better able to understand something that for the rest of the world has not yet happened.

There is also another reality on the West Coast, which is very different to the rules and structures of the East Coast. Here, the social currency, the business currency or your status really comes from being involved in something that is about to happen, and not from what you already did at some point in the past. That means even people like Larry Ellison, Scott McNealy or any other billionaire who made his fortune some years back will not have that much social currency anymore as compared to someone in the same position say in New York City. There, he would still have a lot of social currency, just because he has so much money. It's just different here on the West Coast. You can observe the same dynamics in the entertainment industry where people ask "Are you hot, or more precisely: Are you right now?"

As a hedge fund manager, I want to figure out what large, secular changes are likely to happen because the foundation

of my investment process is capitalizing on big changes - things that people do not expect. The West Coast attracts people with that kind of mentality, so being on the West Coast makes a lot of sense for me.

The other large wealth creation center is Asia, and as we pointed out before, we are closer to Asia and in a better time zone to do business with Asia, in the way that the East Coast has a better reach into Europe.

One of the things that concerns me at the moment is taxation. I haven't really needed to think much about the subject for a long time because the situation at the Federal, state and local levels has been fairly static. But Federal and state taxes are going to have to rise significantly.

Under current law, gains are taxed upon exit at the long-term capital gains rate whatever that is. Let us assume it's only 20%. If that rate goes from 20% to 50%, it's entirely possible that the combined marginal rate could approach 70% and that would be a strong disincentive to investing.

For investment managers, taxing carried interest tax is absurd. Take the case of a venture capital investor who invests for ten years or in our case where we invest in trends that typically play out over three to eight years. If the carried interest tax were to pass and taxes were applied annually at the ordinary income rate, managers' incentives will be to ignore the marginal benefits of long-term capital gains; as such the investment industry really won't make sense for a lot of talented people. And I don't think that in calculating the potential revenue impact of the tax (they are talking about \$25 billion over ten years of extra revenue) they are accounting appropriately for the revenue loss of people who will choose to relocate their businesses. We love, for example, New Zealand's tax incentives and they have a ex-Merrill Lynch guy running the country. I like that. I like very low capital gains tax.

Imagine if California said that for the money that you make in your investment management business, we will forgo taxes. That would make people move to California, the same way as some people I know move to Florida just because there is no state income tax.

These are things that are going to matter. Despite all the attractions and positive factors we have discussed, California may start to lose people. The United States tax system is set up so that as a citizen you pay the same tax no matter where you are, but the big loophole exists for corporations. They get taxed solely in the jurisdiction where they make money; individuals do not.

As a global macro investor, it is my habit to look for big changes. What I see is a massive funding deficit and we haven't actually done anything constructive to address it so far. I am concerned where the marginal tax rate will go – looking at history, a normal marginal tax rate is around 70% in this country. If taxes reach this level, a lot of things will change.

Long term capital is essential to the future growth of this country and we need to preserve the tax advantages to encourage long term investment. If you look at London, it's the same thing. It is too bad they put themselves in that situation because they could attract so many people if they weren't raising taxes.

We talked about Vancouver, and we already have an office there because of our interest in mining and natural resource stocks. We are doing a comparative study of the jurisdictions out there, just to acquaint us with our options. I can't control the tax rate here, and things could get out of control within three years.



John Burbank

Matthias Knab

These things are happening in Europe already. In 2008, about 20 managers moved from London to Switzerland. While in absolute numbers 20 is not large, but looking back to 2003 or 2004, there was actually nobody who was moving from London to Switzerland.

Are there any other final thoughts or comments?

John Burbank

We are quite vulnerable to some out-of-the-box event like the Iceland volcano we witnessed in April 2010. Call it Armageddon strategy, disaster insurance etc. - indeed in many areas - not only financially - we are walking on the edge. For example, let's look at agriculture, a sector we strategically started to invest over the last few years. We have had good weather for 20 years globally. Something as simple as a change in weather patterns would really be difficult for world agricultural production and could lead to food crises. We are not that far away.

As much as we would like to think we have been through every crisis, we're not even close. Historically, this volcano in Iceland was a small eruption, what if it was a big one as has happened through the course of history?

Tina Lemieux

Tina Lemieux: Mount St. Helens altered the weather for ten years.

Apart from weather, there is still uncertainty in the Middle East and the potential impact this may have on the oil markets. No one really knows what Iran or Israel are going to do. The papers reported recently about Syria selling Scud missiles to Hezbollah - these missiles can hit every major city in Israel. Even though we have been through many wars in the Middle East, I don't even want to think about the consequences if nuclear weapons are getting involved.

Some of these themes seem to be visible in our volumes: in gold, or in energy, where we have had record volumes the day the story came out about Syria selling Scud missiles to Hezbollah. It could be a pure coincidence, or an indication that more people start to wonder about the possibility of a major war in the Middle East.

Tom Shanks

Tom Shanks: Even the question of peak oil has been raised again. I have read that some analysts think it could come as early as 2012 or 2013. The ramifications of another energy crisis, should it recur, are profound.

As we have heard in this discussion, there are many areas from which major disruptions could arise. We have seen in recent events that the margin for error may be thinner than we typically assume. Prudence would dictate positioning your investment strategy to be able to survive and even prosper in a wide range of scenarios.

Tom Shanks



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John Burbank

Right. And all this on top of the financial stress we have. If someone thinks there is no point reflecting on these issues, then just worry about what China is going to do to us in the next ten years, because they are not going to play nice with the Western world.

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