



Opalesque Round Table Series '11 HONG KONG

Opalesque 2011 Roundtable Series Sponsor:



Editor's Note

A “Great Period” for Investing into Asian Hedge Funds

More investors than before are now seriously looking to allocate to Asian hedge funds, as the Asian alternatives industry continues to mature. High quality managers set up new funds, many of them as second-generation hedge fund managers who have worked at a hedge fund before, either in Asia or overseas. As they all start out with a low asset base, investors have a better base to negotiate terms. On top, investors are now able to evaluate a broad range of funds and experienced managers who with 2008 survived yet another financial crisis.

Asian Sovereign Wealth and Institutions crave for Knowledge Transfer from Hedge Funds

This Roundtable discloses major trends with far-reaching consequences. However, many of those trends can only be seen and recognized by intelligent, senior experts on the ground. For institutional investors in Asia, investing in hedge funds is not about alpha in isolation, but increasingly about knowledge transfer towards developing a greater understanding and expertise. This Roundtable discusses the example of a recent request for proposal (RFP) from a large Asian investor, where a substantial weighting was placed on whether a manager had a native speaker on the client servicing/investment team.

On the structural side, more hedge funds are now launching UCITS funds or join a managed account platform. For example, about 80% of Permal's China-focused managers are in separately managed accounts. This is a positive trend and a new way to invest into Asia that will attract new investors who historically may have shied away from signing up Asia-based managers.

The 2011 Opalesque Hong Kong Roundtable was sponsored by Bingham McCutchen and took place April 21st 2011 in their Hong Kong office with:

Anne-Marie Godfrey, **Partner, Bingham McCutchen**

Brenda Tse, **Managing Director, Permal Group**

Barry Lau, **Managing Partner, Gen2 Partners**

Georgia Nakou, **Director of Business Development and Strategy Research Hub, Altis Partners**

Jean-Christophe Blanc, **Senior Trader and Senior Portfolio Manager, CQS**

Nyree Hu, **Investor Relations, CQS**

Ralph Chiktong, **Managing Director, Custom House Singapore**

Roushana Sjahsam, **Head of South East Asia, ADM Capital**

Xavier Fanjaud, **Head of Global Research and Portfolio Manager, Gen2 Partners**

The Roundtable discussion also highlights:

- Why has Hong Kong attracted far more hedge funds during 2010 than Singapore?
- How do hedge funds address the demand for Renminbi denominated share classes?
- Opportunities in China direct investments and how to set up pure China plays
- How Hong Kong based funds compete with the Chinese shadow banking system
- Who invests in Asian hedge funds?
- How will Asian hedge fund managers respond to the ever increasing (Dodd-Frank, AIFM) extra-territorial regulatory impact?
- Macro outlook and opportunities in Asia
- Boost in wealth management: What is behind the impressive surge in Asian wealth management and family office structures?

We also thank Custom House Group for sponsoring the 2011 Opalesque Roundtable Series. Enjoy “listening in” to the Opalesque 2011 Hong Kong Roundtable!

Matthias Knab

Director Opalesque Ltd.

Knab@opalesque.com

Participant Profiles



(LEFT TO RIGHT, STANDING FIRST)

Matthias Knab, Ralph Chicktong, Matthew Puhar, Jean-Christophe Blanc, Barry Lau, Xavier Fanjaud

Brenda Tse, Roushana Sjhsam, Anne-Marie Godfrey, Georgia Nakou

Opalesque Hong Kong Roundtable Sponsor

BINGHAM

Introduction

Ralph Chicktong

Custom House

My name is Ralph Chicktong. I represent Custom House. We provide fund administration services for our regional clients as well as for Custom House's global network of offices. Our operations in Asia are based in Singapore and we service a large number of clients throughout the region - Asia, India, and Russia.

Brenda Tse

Greater China

I am Brenda Tse from Permal Group and I am Managing Director and Head of Greater China. We are the third largest independent fund of hedge funds business in the world and the second oldest. We have nine offices across the world, with most employees in New York and London, and Asian offices in Hong Kong, Singapore, and Tokyo. We invest with 187 managers around the world and in terms of our investors' assets we are fairly evenly spread across Asia, Middle East, Europe and the Americas.

Roushana Sjhsam

ADM Capital

My name is Roushana Sjhsam. I am a partner at ADM Capital where I am in-charge of the South East Asia and Australia region. ADM Capital is a leading credit specialist focusing on deep value credit opportunities in the emerging markets. The firm started investing around the time of the first financial crisis in Asia in 1998 almost exclusively in emerging markets. Our initial focus was investing in South East Asia, then in China and eventually expanding our footprint to cover the rest of Asia, Australia, Central and Eastern Europe region. Today we are headquartered in Hong Kong with offices in Beijing, Mumbai, London, Istanbul, Kiev and Almaty.

We currently have approximately USD \$1.7 billion under management with \$1.2 to \$1.3 billion of that invested in Asia, and the balance in the Central and Eastern European regions.

Barry Lau

Gen2 Partners

My name is Barry Lau, I am the managing partner at Gen2 Partners. We are an independent alternative asset management company with a geographic focus in Asia. We manage and advise on approximately USD \$1 billion of assets for investors across the world. We have offices in Hong Kong, Tokyo, and Beijing and employ 30 professionals covering both fund of funds and single strategies investments. My colleague Xavier Fanjaud will tell you more about our fund of funds business; my primary focus is on the direct investment side, and I run the collateralized lending and private equity portfolio.

Georgia Nakou

Altis Partners

I am Georgia Nakou. I am Director of Business Development for Altis Partners. Altis Partners is a systematic diversified CTA. Altis trades managed futures using a proprietary automated system. We are an independent trading advisor that has been trading since 2001, and we currently have \$1.5 billion under management. We have three offices globally. One is Jersey, in the Channel Islands, which is our head office. We also have an office in London, and we opened an office in Hong Kong in November 2010. The office in Hong Kong is partly dedicated to execution on the Asia-Pacific exchanges and partly to business development and investor relations in the region.

Xavier Fanjaud

Gen2 Partners

I am Xavier Fanjaud from Gen2 Partners where I manage the Asian fund of funds. We also run a Japan fund of funds, a hedge fund, and private equity fund.

Jean-Christophe Blanc

CQS Asia Fund

I am JC Blanc. I am responsible for Asian investments across CQS. I am also the portfolio manager of the CQS Asia Fund, which is a multi-strategy fund presently focused on credit and convertibles. CQS is a USD \$11 billion global, multi-strategy asset management company established by Michael Hintze in 1999. We are headquartered in London and we have had a presence in Hong Kong since 2004. We have trading, research, and marketing here in Hong Kong. We also have offices in New York and Geneva and we just opened an office in Sydney last year. As a firm, our investment process is driven by fundamental research and we are very focused on our operational and risk infrastructure platform.

Anne-Marie Godfrey
Bingham McCutchen

I am Anne-Marie Godfrey. I am the partner responsible for the investment funds team here at Bingham in Hong Kong. We provide fund formation services and act as transaction counsel on the establishment of funds in several jurisdictions, including the Cayman Islands, the British Virgin Islands, Jersey, and Ireland.

We also provide SFC licensing advice and regulatory advice to managers who are setting up in Hong Kong. In addition, we arrange for the authorization of funds with the SFC for distribution to the retail public in Hong Kong. We liaise closely on behalf of our clients with our U.S. offices for U.S. regulatory advice and with our London office for E.U. regulatory advice, and we also have financial services regulatory capabilities in our Tokyo office. From our Hong Kong office, we principally service clients in Hong Kong, Singapore, and Japan, but we also act for clients in the U.S. and Europe.

Nyree Hu
CQS Asia

I am Nyree Hu and I cover marketing for CQS in Asia.

Anne-Marie Godfrey

Whilst generally the last 12 months were difficult in terms of raising capital in Hong Kong, in terms of new fund formation, we see a lot of interest in Mainland China. We see interest in currency funds and commodities funds, as well as arbitrage funds. The types of funds we have established recently cover a wide range of strategies.

At the moment, we also see a lot of concern throughout the industry in Asia about regulatory developments that may impact managers' ability to raise capital in the U.S. and in Europe, primarily as a result of Dodd-Frank and AIFM. The regulatory regime in Singapore is clearly changing as well and there is still quite a bit of uncertainty around the guidelines issued recently by the MAS. This overhang of regulatory uncertainty comes on top of the difficulty in raising capital. As a counter trend to that, a number of different platforms have been established in Hong Kong that are assisting managers in distributing their funds. This is particularly helpful to some of the smaller managers in the region.

Anne-Marie Godfrey

I think most of the regulatory impact on Hong Kong managers is extra-territorial. The impact of Dodd-Frank is clearly far more imminent than AIFM. Managers have been given a little breathing space however. A letter was issued early this month from a senior person at the SEC to the North American Securities Administrators' Association that indicates that the deadline for registration is going to be pushed back to the first quarter of next year.



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A lot of managers in Asia may benefit from the proposed private fund advisor exemption, provided that the money from US subscribers that such managers raise is accepted into "private funds" and not, for example, via managed accounts. If the rules are finalized in their current format these Asia-based managers will be treated as exempt reporting advisors. This means that they will have to submit some basic information to the SEC on an annual basis. We believe most Asian managers here will try to operate within this exempt reporting advisor status as opposed to registering with the SEC.

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Another question is whether some US pension funds will actually start to demand SEC registration as a condition to investing with an overseas manager. We are not seeing a lot of evidence of that, although clearly SEC registration does reduce some of the ERISA risk for pension funds.

Brenda Tse

I can share some of the facts and figures mentioned by Martin Wheatley at the end of 2010 on the hedge fund industry in Hong Kong, showing a thriving and promising environment. At the time there were around 300 hedge funds actually operating in Hong Kong and over US-\$62 billion handled out of Hong Kong by hedge fund managers. The sector grew 25% year on year and he expected 2011 to grow at a similar, or even higher, rate.

As a hedge fund investor - and here I am talking about our Asia and China focused fund of funds - we are seeing more regional managers offering different strategies, not just long/short, which is what we saw a few years ago. Since those days the sector has developed significantly, it has moved forward, with new managers and established managers setting-up shop here and developing the number and type of offerings. While 45% of our regional managers are still in the long/short space, we also have very good Asia focused macro, convertible arbitrage, and event-driven managers.

In the past, there has been much deliberation between Singapore or Hong Kong jurisdictions. For us, we have offices in both, but Singapore regulation is more stringent, which I think will play into Hong Kong's hands, as managers, in particular the smaller ones, decide to choose Hong Kong over Singapore. There is also the added benefit of being geographically closer to China, which can help with fund raising, as well as being better placed to assess the opportunities. As things stand we have three funds authorized by the Hong SFC and have just added a new one.

Matthias Knab

What is the process like getting a fund approved by the Hong Kong SFC?

Brenda Tse

It is not too onerous. But there is always a lot of back and forth detail, which is understandable, and it is imperative that they really do understand the strategy driving the fund. At the time, in 2002/2003, we were among the first such funds to be authorized.

In terms of total new money into our business, over the past 12 months we have seen net inflows of around \$2.4 billion, with \$2 billion primarily from institutions and one quarter of it is actually from Asia.

We are now operating in a landscape that has changed since the crisis, with far greater onus on long term returns, providing solutions and adding value. As part of this, we have developed more customized solutions, with bespoke products, developed a sizeable \$7 billion separately managed account platform, and continued working and expanding our more traditional banking channels. Of our \$23 billion AUM, the client breakdown is 60:40 in favor of high net worth clients, but by the end of the year, we believe that this breakdown will be closer to 50:50.

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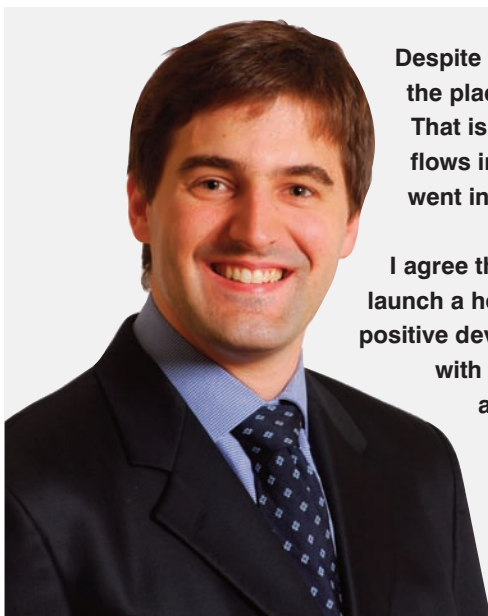
Brenda Tse

We are seeing greater allocations into Asia hedge funds and China, with increasing interest from institutions as they seek to increase their China weighting. In terms of our regional investments, we have been using far more separately managed accounts, giving us fee reductions, greater flexibility, transparency, and liquidity, as well as the ability to product-engineer our exposures, rather than taking the more traditional pari passu route.

To give you an example of product engineering, in late 2008, early 2009, one of our credit managers gave a very good case for interest only mortgages – IOs – as part of a wider presentation. We thought it made for a good opportunity and set up a dedicated account focusing on this segment. The manager also invested alongside, recognizing the opportunity, and the result was a return of over 100%. This is the type of value that investors recognize and appreciate.

Xavier Fanjaud

Despite the fact that everybody says Asia is great, has a lot of growth and should be the place where to invest, we found that investments in Asia have been very subdued. That is not only the case on the hedge fund side, but even in the long-only arena, flows into Asia have been reasonably slow. For example, only 5% of the ETF inflows went into Asia when it should be around 25%. At some point the situation will reverse.



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I agree that we are seeing fewer and smaller launches. When in the past people would launch a hedge fund with \$50m or \$100m, they may now launch with just \$10m or \$20m. A positive development is that investors like our fund of funds have much more interaction with the manager. People setting up new funds usually do have a great background and set up their operations in an institutional fashion, using good administrators, auditors, law firms etc. We can also negotiate more with them and give feedback on their liquidity profile, transparency, or even their leverage and target performance.

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From a geographical perspective, there are some interesting splits between the Singapore and Hong Kong jurisdictions. Logically, Indian managers tend to be in Singapore, while China managers tend to be in Hong Kong. But it is also interesting to note that credit managers tend to be in Singapore, while macro managers or the larger managers tend to be in Hong Kong. While Singapore seems to be trying to toughen their regulations, it remains much easier to set up an hedge fund office there than in Hong Kong. Hong Kong has a reputation for being tougher on regulations, but it has the advantage of harboring all the major banks, making market access easier for hedge funds.

Anne-Marie Godfrey

Singapore has always attracted a lot of quite small managers because of the exempted fund manager's regime. The capitalization requirement under the new notification regime is now proposed to be S\$250,000, which, for some very small managers, can be a problem. For example, Japanese managers who seek to avoid the permanent establishment rules in Japan have historically gone to Singapore under the exempted manager regime to do their trading. We are now getting enquiries from Japanese managers about the licensing regime in Hong Kong. In Hong Kong, if an asset manager's license is conditional upon it not handling client assets, the liquid capital requirements are HK\$100,000, which is considerably lower than the proposed new requirements in Singapore.

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Anne-Marie Godfrey



Barry Lau

The capital requirements are just one consideration, but I believe costs like rent, salaries, etc., can be higher in Hong Kong than in Singapore. I agree that the larger funds tend to set up in Hong Kong, even though things get tighter in the Tier 1 office market, which has only a 3.4% vacancy rate in 2011, and is projected to even go down to 2% in 2012.

I'd like to discuss the latest thinking of fund structuring; what I mean by that is whether, for example, establishment of UCITS III compliant funds, managed accounts, etc., is hype, or a fad, or if it is a structure that is here to stay? And, for less liquid investment strategies, will investors be happy with longer lock-ups in an era in which both transparency and liquidity is a desirable attribute? When it comes to the actual fund structures used, a lot of managers today discuss setting up UCITS funds or going onto a managed account platform. This is a positive trend and a new way to invest into Asia that will attract new investors who historically may have shied away from signing up Asian-based managers.

When it comes to the actual fund structures used, a lot of managers today discuss setting up UCITS funds or going onto a managed account platform. This is a positive trend and a new way to invest into Asia that will attract new investors who historically may have shied away from signing up Asian-based managers.

Investors are also progressively recognizing that whilst liquidity is preferred, the need for liquidity could represent significant performance drag. Today, everyone must take into account the real liquidity of the underlying assets held by the fund in order to avoid liquidity mismatch. The fact that investors are beginning to embrace the above two points relating to liquidity - (i) lower liquidity has a greater potential to generate higher alpha, and (ii) liquidity premium cannot be compromised by investing in funds with liquidity that does not match its underlying investments - means we will likely see a polarization of highly liquid funds and funds gravitating towards longer lock-ups for illiquid investments.

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Ralph Chicktong

We are seeing a lot of activity in new funds and from new fund managers. Statistically, there are more funds investing in Asia now than ever before. There are a 100 to 200 or so more than before the financial crisis.

This is coming from a number of areas. The first is those global fund managers deciding to set up in Asia (whether that be Singapore or Hong Kong) and, new, Asian-based fund managers. There is no doubt that Hong Kong is winning out over Singapore in terms of the preferred domicile for new fund managers. Statistically, last year in round figures in Singapore there were about 15 new fund managers, and in Hong Kong 50-60.

Part of the reason for the increase in Hong Kong is China and that everyone wants to look to China for both inward and outward investment. Another part of it is due to the uncertainty that has existed in Singapore in respect to regulation. The MAS in Singapore has published draft-revised regulation that revolves around competency, capital, and residency requirements.

In my opinion, that is a good thing for the industry but the bar has been set a bit higher. During the period of uncertainty, I think it had the effect on fund managers that were deciding to set up in Singapore or Hong Kong and they tended to favor Hong Kong as they did not know what was coming up in Singapore.

In terms of the bar being raised, there is a lot more due diligence being undertaken now. As fund administrators we receive a lot more enquiries from prospective investors saying, "How long has this fund manager been with you, how have you found the relationship et cetera, et cetera?"

We have even had potential investors sending people in to us to talk to us about our systems and our interaction with fund managers. Brokers also are more selective these days as to which funds they take on. The overall effect has been that - especially for those small fund managers who may have set up easily before the crisis, the entry cost and level of governance has been raised. They are now looking for alternatives, maybe managed accounts, maybe to join an existing platform.

Just looking to Asia generally, regulation in Asia is very diverse. Singapore and Hong Kong are well regulated. China - and I think that I made the comment previously - is evolving as we speak.

It is sometimes a challenge for Chinese fund managers to keep up with the changes, let alone external managers and potential investors. You have Indonesia, which is a great investment opportunity, but has some way to go in terms of regulation and governance. Vietnam and Cambodia are also prospective targets for investment, but the regulation and the access to US Dollar and so forth makes investments and fund management challenging.

Just coming back to China, given the proximity, cultural ties, and special regulation between China and Hong Kong, my own feeling is quite clearly that Hong Kong will win out in terms of where the majority fund managers will choose to domicile their operations.

Matthias Knab

Georgia, you represent a European firm that has set up an office in Hong Kong. What has been your experience?

Georgia Nakou

We have a slightly different perspective in that we are not a new fund; we are an established manager looking for a foothold in Asia.

Our experience was that, when we originally did our research to identify an Asia Pacific base, we were looking at Singapore, because the costs were lower, the regulation looked good, the local authority was offering attractive incentives, and everything seemed fine on paper, until we started looking for personnel to hire. We started by looking for senior operations staff, because, as I mentioned before, a large part of our function here is operational.

When we originally did our research to identify an Asia Pacific base, we were looking at Singapore, because the costs were lower, the regulation looked good, the local authority was offering attractive incentives, and everything seemed fine on paper, until we started looking for personnel to hire. We started by looking for senior operations staff, because, as I mentioned before, a large part of our function here is operational.

As it transpired, most of the senior operations staff we talked to was based in Hong Kong and unwilling to move. Also, the marketing people pointed out that if we want to cover a region that stretched from Australia to Japan, Hong Kong is better situated geographically. So, that swung it in the end and we were willing to swallow the higher costs for those two very good reasons.

Georgia Nakou



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I do not know if anyone else wanted to comment, but I have a question that I wanted to ask regarding flows into hedge funds from Asian investors. I was wondering, given that Asian jurisdictions are growing economically, the population is massive, middle class consumption and personal investment culture is spreading and the demographic in many cases is ageing, there seems to be tremendous potential for inflows into hedge funds both from retail and from institutional investors.

I was just wondering if people who have been more experienced in these various jurisdictions can offer any suggestion as to what it would take to unlock the assets?

Xavier Fanjaud

Well, I would say both of them. Hedge funds can provide stable returns over time, which is a positive for an aging population. However from my personal experience, and I speak as a non-Asian living in Hong Kong, most people in Asia do not really look for stable investments: what they want and are looking for is strong performance. When it comes to investments in hedge funds they will usually shun 10% return with low risk and prefer 30% with high risks.

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This is where education can come in with concepts like risk-adjusted returns, but a lot seems to be cultural as well. From a Chinese point of view, there is still a search for opportunity and dream. This is reflected in the distribution or placements of Asian hedge funds. You do have Japanese institutions invested in hedge funds but most investors in Asian hedge funds come from outside the region. On top of that, there are very few institutions in Asia that would be large enough to meaningfully diversify their assets or portfolios with hedge funds. Actually, when Asian investors look at hedge funds, they tend to prefer the large shops from the U.S. or Europe.

Xavier Fanjaud



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Jean-Christophe Blanc

It's important to remember that pension funds are attracted to absolute return strategies as they seek to match their long-term liabilities. That's why hedge funds have grown in popularity in the developed markets. In Asia the pension fund system is in its infancy and high net worth investors and funds of funds have historically been the largest part of the investment base for Asia-focused hedge funds. The so-called institutional market, pensions and endowments, are far smaller in the region than they are in the US, for example.

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Jean-Christophe Blanc



What is clear is that hedge fund investors have become more sophisticated in their approach to due diligence and monitoring of their hedge fund investments. They want more transparency, which of course is perfectly legitimate and is a good thing, whereas before, sometimes people invested in a hedge fund without actually fully understanding the strategy.

Today investors are much better informed and, by being much better informed, they have become much more selective. This raises the bar not only for new entrants, but also for incumbent hedge funds. We find our investor discussions are much deeper, more complete, and more demanding than they used to be.

Nyree Hu

One thing I would add to the mix for institutional investors in Asia is that it is not about alpha in isolation. It is also about knowledge transfer with a view towards developing a greater understanding and expertise. For example, for one recent request for proposal (RFP) from a large Asian investor, a substantial weighting was placed on whether a manager had a native speaker on the client servicing/investment team.

Outside of sovereign wealth funds, the institutional investor base in Asia is less diverse. The pension fund is less of a feature when compared to other global regions. In Asia (ex-Japan, ex-Australia), at this point, the social security net is less developed and the individuals are left far more to their own devices when saving for retirement. There is some nascent pension fund activity in Korea, but until the regulatory regime regarding investing in offshore funds is clarified, this market will remain muted and when it opens will likely need to be intermediated by Korean distribution channels due to language & regulatory constraints.

So, on the institutional side outside of sovereign wealth funds and pension funds; you are basically left with the global/local fund of funds, insurance companies, and some limited balance sheet investors from industry and endowments.

Outside of the institutional investors, really it is about high net-worth individuals and family offices and the most concentrated way to access them is via private banks.

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Nyree Hu

Brenda Tse

Sovereign investors are certainly benefiting from the transfer of knowledge.

We have been offering funds in Asia for over 20 years and what we have seen over that time has been the growth of the private banking channels and interest from the HNW audience, but over the past five years there has been a definite sea change, with far greater interest from institutional investors. Such investors have different requirements, for beyond the long-term performance numbers, a key criteria for raising institutional assets is to show you have the right resources behind you and an established infrastructure. Since the financial crisis, not surprisingly, institutions now need that additional layer of comfort.

The alternatives industry really suffered in the post financial crisis period. Although we did not side pocket, gate, or suspend redemptions, we were all tarred with the same brush as those who did. Fast-forward to today and not surprisingly private bankers and clients do not want to go through that again. It has been a rebuilding process and 2010 was, I think, the turning point. Today we are seeing good, positive inflows.

Part of this is also training and re-educating investors about the merits of alternatives.

Xavier Fanjaud

Maybe in the old days, before the crisis, people were not really interested or concerned about really understanding hedge funds or fund of funds in this specific case, because at that time the banks were accommodative enough to provide us with capital guarantee structures. This was of course a huge factor because you could go to pension funds and insurance companies with a rating and a capital guarantee, reducing the need for in-depth understanding of the product. In reality, funds of funds looked perfect for the exercise of structuring: they showed high diversification, low volatility and drawdown, and were seen as stable performers over time.

Therefore, some invested without understanding all of the hedge fund strategies, as they saw their risk as reasonably limited. Since 2008, banks have reduced leverage and their capacity to provide capital guarantee is now close to zero. There are only three or four banks willing to provide capital guarantee, and the terms are not very attractive. To a certain extent, this effect may also have contributed to the shrinking of the fund of funds AUMs, which were once around 50% of the hedge fund industry but now are closer to 35%.

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Xavier Fanjaud



Nyree Hu

A lot comes back to the fact that there are so few pension funds in Asia, so there are fewer intermediaries doing all that due diligence for you. That puts the onus onto the private client at the end of the day. This is why the high net worth channel is so much more important in Asia, because there is nobody doing that intermediation for the individual at an institutional level like we have it in places such as the U.S., Europe and Canada.

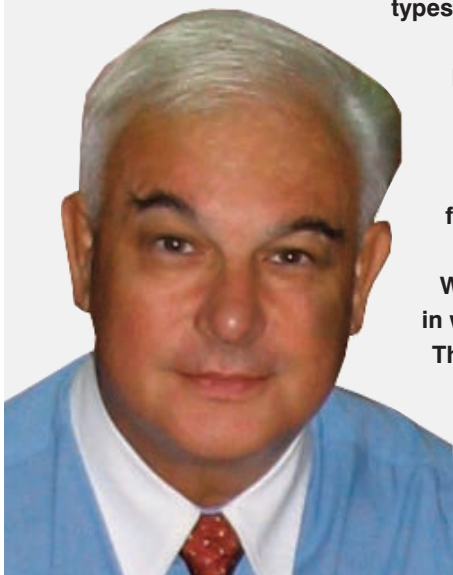
Ralph Chicktong

On the subject of fund of funds, from an administrator's point of view we do see investment coming back into fund of funds. During the crisis, they said fund of funds is dead; it is not dead but living, and coming back strongly.

The concerns with funds of funds are that investors are looking for liquidity and are looking to spread the risk in the types of funds and asset categories that they invest in.

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The concerns with funds of funds are that investors are looking for liquidity and are looking to spread the risk in the types of funds and asset categories that they invest in.



In terms of investment in funds in Asia, a greater proportion of investment is coming from within Asia now than previously. At the very grass roots level, I think that is driven by the rise of middle class in China and India that is, in turn, driving consumerism. It is also driving the pension industry. China and Australia pension funds are huge and the industry in India is growing.

What we also see is certainly interest from high net worth individuals in investment in wealth management structures. There is a lot of interest in family office structures, This has been brought to the forefront by families who suffered during the financial crisis. Now there seems to be a bit a push to look at a structure where wealth management can be transparent, actively managed, accurate in terms of pricing/ valuation and established in a regulated environment.

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consideration for where investment and fund opportunities may be increasingly driven from in the future.

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From a fund administrator's point of view we are seeing requests for the formation of family office structures, which are quite diverse in different asset classes and jurisdictions. We see the rise, again, of the private banking and wealth management industries.

Roushana Sjahsam

ADM has been investing in credit opportunities in the emerging markets since 1998 and we launched our first fund in 1999. Today, we manage USD1.7bn in 9 different funds. What we have found is that hedge funds in Asia have still not quite recovered to its peak prior to the 1998 financial meltdown. In Hong Kong we had USD90 billion in assets under management prior to 2008, and it is estimated that number is only at USD63 billion today. However this contraction has also had some positive effects. For example, many of our competitors, the prop desks and the investment banks, have disappeared with a number of those traders setting up their own shop. Some have been more successful than others, but what is interesting is that such funds have been seeded mostly by Asian money from family offices or arms of banks, rather than the traditional fund of funds from Europe and America.

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At ADM, we have been busy investing and, with the increasing interest in Asia, we have been very busy fund raising. Investors today are looking for managers with a track record, especially those that have survived several cycles. Fortunately for us, there are not many of those left. I was looking recently at the list of counterparts we have worked with dating back to 2007, and many of them have disappeared, sometimes together with the entire firm itself.

We are pretty optimistic regarding flows into hedge funds, especially in our strategy. As we discussed, transparency and constant communication have become the cornerstones of a hedge fund's operations. Our investor relations department's headcount has pretty much quadrupled since 2008 and we have learnt that our efforts in communication saved us. Despite rough times during the financial crisis, I believe our investors very much appreciated the fact that we totally opened ourselves up in terms of information and by keeping a constant dialogue with them.

Roushana Sjahsam



Such new funds have typically raised about USD100 million to USD200 million and have focused on liquid strategies. We saw limited interest from investors to put capital to work in the event-driven and private space for a little while. We feel this sentiment was partly driven by European and American

investors thinking that they could achieve returns not dissimilar to those in Asia by investing in their home markets buying into distressed and special situation assets. Hence, what we witnessed was a significant repatriation of their capital which they tried to invest back home but that value proposition never materialised. Essentially, by taking their money out of Asia, they missed out on quite a big run-up in 2009 and 2010.

Obviously, I am talking from my perspective, which is a very niche market compared to the equity and liquid trading strategies.

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Matthias Knab

What are some of the opportunities you see right now in Asia? Is any one of you launching new products?

Roushana Sjahsam

The opportunities remain very attractive. Obviously, Asia is a growth market and we benefit from that, but particularly in terms of our strategy, which includes distressed, growth and special situations. We have also taken advantage of the very dysfunctional capital markets in the region.

I already pointed out that there are less players than before with the contraction of the shadow banking market. This has resulted in a funding gap for credit supply to corporates as large pools of capital have totally disappeared, particularly in the 8-20% lending bracket. The expanding economies in the region have resulted in strong growth for credit, with opportunities arising in China and South East Asia. Interestingly, Australia has produced a number of good opportunities because of Basel III and the pressure on banks to clean up their balance sheets; a classic case of stressed sellers of performing and or quality assets. For the first time, banks in Australia have been shedding assets off their balance sheets which have ended up in the hands of PE and funds like ADM. Just in the past year, Australian banks offloaded several billion dollars of bad assets, and we have been in the right place at the right time to be at the receiving end of that, acquiring interests in quality companies at extremely attractive prices.

Japan has been a little bit of a disappointment. It is a mature market with no real growth, and the exits in Japan are not that evident. You could very well buy a fantastic building in the middle of Tokyo at a good price, but how are you going to get out? There were some slight hopes that Chinese capital will go into Japan to start buying these assets, but we do not see that happening, certainly not for the time being.

If you look at where the markets are right now, there is a feeling among investors that pure credit and equity markets are definitely fully priced, and there is a feeling that this long rally is now due for some correction. We do see the added value in our approach where a debt product can offer very strong downside protection by virtue of our unique structuring expertise, and combine this with an equity upside.

We are active across the capital structure. Obviously, we are very much debt focused to protect our downside, however we are also able to get a lot of our upside return through equity. For people that are looking to invest into Asia going forward, this presents a very attractive proposition, given concerns over volatility in the near to long term.



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Brenda Tse

In terms of investment strategies, we particularly like macro, especially discretionary managers, because these managers have the broadest mandate and can use all asset classes. As things stand, the recovery remains on a knife's edge and these managers are best placed to position their portfolios in line with central bank thinking, likelihood of European sovereign defaults, currency risks, potential for China soft landing, and so on. Macro allocations are a core part of our business, making up around 40% of our total assets, and are followed by fixed income, long/short, and event driven.

Matthias Knab

Do you also invest in Asia based macro managers? How have Asian macro and the overall Asian hedge fund industry evolved from your perspective?

Brenda Tse

We invest in a few Asian macro managers, but they are mostly global.

Matthias Knab

Many investors shy away from China because of the challenges in due diligence and safeguarding the assets. How do you address these issues, and what are your selection criteria for the underlying China managers?

Brenda Tse

We have already launched our China fund. We saw an opportunity in the market to launch a fund that also had a sizeable tactical allocation and to date it has been very successful. The timing was right as not only was China opening up its capital markets, but also Chinese companies were increasingly seeking New York or Hong Kong listings, and a growing number of investing tools were being made available.

Most of our China-focused managers are in separately managed accounts. I think this number is around 80%. Some are China-based and others based out of China, and they are investing both in China and in China-related themes out of China. This remains largely untapped, with significant opportunities and we are seeing more and more quality managers moving into this space. Given how quickly things are moving, you do need a team on the ground, and we have our lead portfolio manager based in Singapore.

By using separately managed accounts we can not only monitor the investments very closely, providing an additional levels of comfort, but they also allow us to take the more customized approach should we so desire, be it in pharmaceuticals, infrastructure, and so on. Where this fund differs from

other funds is its hybrid approach, combining the more traditional fund of hedge funds approach with that of a tactical fund, using ETFs, baskets of securities, and so on to implement timely views.

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Barry Lau

Similar to what Brenda told us with investors asking for a China fund of funds, we also noticed investors prefer much more concentrated investments, i.e., they are very discerning about alpha, as opposed to beta.

They no longer believe that they want to pay for beta. If they do, then they will go for ETFs or other long-only funds. We have traditionally adopted and continue to employ a more proactive approach to investing. In 2008, during the financial crisis, our fund of funds was down 5.9% (compared with industry average of -22%) as a result of a more hands-on and proactive approach to shifting the portfolio in a manner that has mitigated against systemic risks and protected it.

In terms of allocating to China, we see two main opportunities:

1) On the direct investment side, we see the provision of private loans as a fantastic solution. Whilst most observers would argue that China has an abundance of liquidity, there are only a limited number of methods for SMEs in China to access financing for growth. By way of background, 99% of all corporate in China are SMEs; SMEs contribute to 60% of GDP in China and they collectively create 75% of full time employment; yet, SMEs are only recipients of 25% of traditional bank financing. This dichotomy is symptomatic of China in many ways with the central government doing its best to cool the market and the net results are such that inter-bank borrowing rates are currently at 6.23% p.a.; bank reserves have gone up to 20.5% and are rising (as of 18 May 2011, the effective reserves requirement ratio would be 21%, an additional 50bps increase from the date of the Roundtable).

The good news is structurally, China provides a great opportunity from a risk-adjusted standpoint for investors wishing to act as an alternative liquidity provider to arb this situation. This is a situation whereby you are able to sit right at the top of the capital structure with some degree of equity returns. You are synthetically creating a call option which I would like to think is once in a decade (and hopefully will not happen too often).

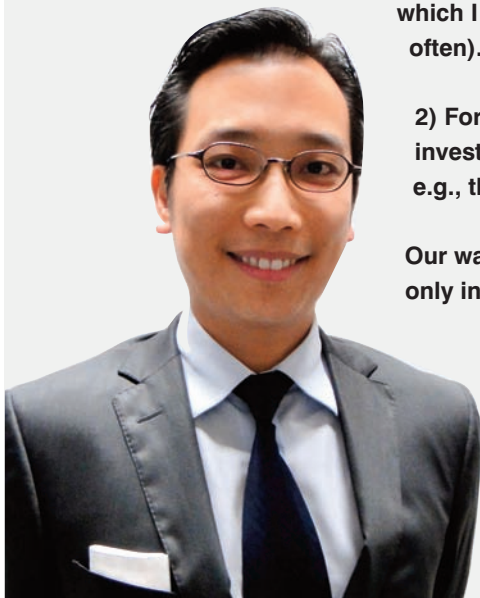
2) For our fund of funds, we have devised a way to invest in pure-China. When you invest in China, there are many ways to achieving an investment objective of "China", e.g., there are A shares, H Shares or investing via Singapore, or ADRs.

Our way of looking at China is you have to invest in A Shares, because for one it is the only index that is denominated in RMB; the other reason being there are about 1700 companies in the A shares market against 160 companies in the H shares market, which are incidentally mostly large cap. If you want exposure to the financial sector then H shares will do the job, but if you really want a diversified approach you want to play on domestic consumption, you want to really look at what real Chinese people want to be exposed to then you have to go via A shares.

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Barry Lau

It is not easy to do that, and in response to your earlier question about the landscape, we understand that at the moment there are around 302 private fund companies in China, which are akin to the unregulated hedge fund management companies here in Hong Kong or the rest of the world. They are currently unregulated in China and provide advisory services to trust platforms onshore in China, which does not restrict or constrain them from providing advise to us offshore in Hong Kong.

To go down that route of using domestic China managers means we have to have a bigger infrastructure in terms of executing the ideas, investing in A shares, arranging the QFII, and delivering an exposure to our investors. This is the way we invest in China. It is very time consuming and sometimes costly, but you get pure China, if you want pure China.

Jean-Christophe Blanc

We are a global fund so when we discuss opportunities we, and everyone else, are used to dividing the investment universe into the ‘developed’ world and the so-called ‘emerging’ world. However, I am not exactly sure why we continue to call Asia an ‘emerging’ market. It misses a critical point. As an investor in both equities and bonds you are in effect a ‘creditor’. You have to ask yourself which countries today will now be more likely to be able to repay you and which are the ones with a higher risk of not repaying you?

In this context, Asia is very well-positioned. So, from a macro standpoint the longer-term weighting towards Asia is pretty obvious, at least from my perspective.

Asia continues to mature. As Barry pointed out, there is clearly a tightening of credit conditions going on in some economies in Asia – in China, but also in other markets. This means local companies will look at the international market for financing. And it will likely mean further growth and a deepening of the high yield market than we have seen over the last couple of years. What I also find very interesting is the stage of the interest rate cycle. I think we could be at an important inflection point in terms of interest rates and what that means for markets and asset managers.

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I think all asset fund managers have, in effect, been in the fixed-income bull market over the last 25 years. I started in 1986 when government bonds were yielding 9%, having come down all the way from 15%, and they went all the way down to 2% or 2.5%. I believe people should really think hard about what could happen to their portfolios should interest rates reverse significantly. How will it affect certain regions versus others? It is also important to examine how such a major back-up in interest rates would affect asset allocation within funds. What will happen to the diversification of strategies? Will the uncorrelated strategies that people were seeking to add continue to work? I believe when interest rates and the availability of cheap money change direction, asset management will be redefined.

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Georgia Nakou

For us as a CTA, we trade about 190 futures markets globally, on about 28 exchanges, seven of which are Asia-Pacific exchanges. There are new exchange products being launched out of Asia, which is great news, however I think alongside them certain structural issues would have to be addressed in order for a global manager to be able to access the product.

For a manager to be able to make use of these products on behalf of a global investor base would require freedom of capital flows in and out of China and India, for instance, and facilitation of clearing arrangements in other Asian jurisdictions, so that managed accounts can be traded on the exchanges there. In other words, new exchange traded products are always good, and being able to execute within managed account structures would bring more players to the regional exchanges.



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Georgia Nakou

Roushana Sjahsam

We are about to launch a new product which plays on the theme of the funding gaps. Opportunities arise where traditional capital is no longer available to companies. We at ADM have done that through our Maculus I, II, III and V fund series. We provided funding to companies, mostly with a very high downside protection, and targeted returns of 15-25% and upwards. We are fully invested in all these funds and investors, new and existing, are enquiring after the launch of the next fund in this Maculus series.

The new fund will likely have a slightly different structure with capital locked up for up to 5+1+1 years and targeting a net 25% return. The need for a tweak in the structure is a result of certain investments in our existing funds actually paying back a little too quickly. However, many of our investors do not want their money back so soon. In line with demand for longer invested capital for investors, we propose having the flexibility to recycle capital into new opportunities for up to possibly the first four years of the fund life. So, that is one of the new products that we will be launching pretty soon.

Another fund we are about to launch in partnership with the IFC shortly is targeted towards a different type of investor. We are collaborating to launch a co-branded facility to specifically target companies that fall victim to the funding gap mentioned earlier and are better or too high credit quality to go in to the Maculus funds.

With this fund we will be targeting around 8-12% return. We expect banks to be investing in this type of fund alongside the IFC. We see this as a stepping stone for them to generate future business opportunities, where we at ADM invest in companies and bring them to the next level of credit worthiness which in turn will then be taken out either by banks or syndicate loans. For us, it is a very encouraging development to see supra-nationals coming to hedge funds like ADM to help them invest their money.

Xavier Fanjaud

When it comes to fair price, I actually think now is a very good time to invest in Asia for several reasons. I do not think Asia is expensive by a number of standards: Equities are still very cheap when we look at PEs and growth. Moreover, the credit markets are expanding, providing new source of capital for Asian companies. In my view, Asia is actually safer for savvy investors who understand the intricacies of these markets, and it has much more growth potential. We are fairly positive on Asia, particularly for equity. We are investing a lot in long/short and in deep value. Moreover, while Asia is a classic boom and bust region, I do not believe we are yet close to a bubble, when we consider the valuations, the volumes and the current level of risk (or lack thereof) in the system.

I actually think we are in a great period for investing into hedge funds. There are a lot of very high quality managers setting up shops. Many are second-generation hedge fund managers, who have worked at a hedge fund before, either in Asia or overseas, and they have a good background and expertise. Also, as they all start out with a low asset base, they are willing to listen to our advice.

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Matthias Knab

What is the level of interest among fund managers in respect of Chinese currency funds?

Xavier Fanjaud

People are certainly interested to invest in a hedge fund that could be in Renminbi.

Matthias Knab

Are they interested in the currency itself or in the fund?

Xavier Fanjaud

Well, it is always nice to have a Renminbi exposure, but you cannot really have it as a pure fund because the performance you derive from a RMB allocation is not massive (2-3% per year), while the restrictions attached to it (relatively more expensive bonds and equities) could reduce performance.

Matthias Knab

From what I hear, there are a lot of enquiries about Renminbi denominated share classes, and the managers that go ahead with them are perhaps entering into non-deliverable forwards to get the exposure, but those share classes are still denominated in US Dollars or in Euros. The investor gets the exposure to the underlying equities, which will be denominated in another currency, but also benefit through the Renminbi appreciation.

What are some of the concerns or challenges about the region that you would like to share?

Roushana Sjahsam

We certainly see some risk in the so-called Chinese shadow banking system, which includes new hedge fund money and local Chinese parties or private equity shops which have been set up onshore. We increasingly find ourselves competing against such parties who are looking to get on the bandwagon for a piece of the distressed and special situations pie.

There is a lot of movement from Hong Kong based funds, but the question is if our edge in China will be sustainable when you start competing with local money. On top of that you have the obvious regulatory and governance issues. So far, our 13 year track record in China has held us in good stead. Our pipeline looks strong and we have established strong relationships with strategic partners in China. We have also been approached on the possibility of managing China focused funds for investors who prefer to be involved with a reputable manager with track record in the region.

Matthias Knab

Can you tell us more about the Chinese shadow banking system and what type of risk they pose?

Roushana Sjahsam

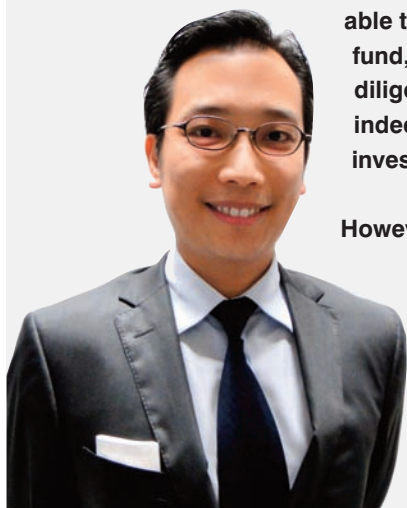
These are basically Chinese entities, mostly arms of banks or financial institutions, or SOEs (state owned enterprises) that see hedge funds making very good returns on distressed and special situation credit. So they think, "hey, instead of lending the money at 1% or 2%, why not jump on that bandwagon and try and make similar returns too?" There is also a certain push towards setting up local China-based hedge funds as well. They are funded with local money because of the enormous amount of liquidity in the system.

Barry Lau

Roushana is right, you have a lot of pawnshops or short-term lending financing companies in China, the so-called "shadow banking system". There has been a proliferation of them since 2009. To date, officially 2,614 have been registered, with many more operating without proper licenses and registration.

In 2010, the official number is around RMB 200 billion of financing. The unofficial number is a multiple of that.

This Chinese shadow-banking system Roushana is referring to has guys on the ground who have close accessibility to the assets. They have the ability to hold the collateral, they have the ability to go and enforce it locally. They have local relationships, and they have speed of execution. As an example and a potential challenge, in China, the shadow-banking system could conduct its due diligence in two days (or sometimes less), they will be able to finance a company by taking real estate as collateral, which if one was an offshore fund, one would be unable to do so readily - we certainly would not be able to complete our diligence within two days - and taking onshore collateral would also be a challenge. This indeed provides for some interesting intellectual discussions and debates among the investment team.



However, that being said, I think there are ways that one could take advantage of that as well, because the shadow-banking entities provide only 1-3 months money, typically. Regulation says they should not go beyond six months. They can roll, but typically they do not. So, anyone needing cash for six months and beyond, 6-24 months are where we think the sweet spot is going to be, and that's the area on which our fund is focused.

Barry Lau

Now, insofar as overseas funds trying to compete in that market one has to face a few issues. This Chinese shadow-banking system Roushana is referring to has guys on the ground who have close accessibility to the assets. They have the ability to hold the collateral, they have the ability to go and enforce it locally. They have local relationships, and they have speed of execution. As an example

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