OPALESQUE



Opalesque Round Table

GENEVA

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Introduction

Dear Reader,
The purpose of the Opalesque Roundtable Series is to provide a catalog of intelligence on the world's most important hedge fund centers and introduce you to the most important local players of each jurisdiction. New York, London, Singapore, Hong Kong, Tokyo, Sydney, and Auckland are already covered. With the new Opalesque Geneva Roundtable, we are entering another major global wealth and asset management center.

It is estimated that **approximately 30% of all global hedge fund investments are allocated through Switzerland.** In addition, a number of single manager hedge funds and other related service providers have moved here or set up subsidiaries.

In this Opalesque Roundtable, we are presenting you a hand-picked cross section of the local players, including representatives from UBP, which with over $55 billion is the second largest allocator to hedge funds globally, as well as a representative of $4bln+ hedge fund Jabre Capital, and Dr Stéphane Graber, Deputy Manager, Department of Economy and Health at the Canton of Geneva - who helps hedge funds to move there - and many more. Here is the full participant list:

1. Anne Simond, Director, UBP
2. Mark Cecil, Partner, Jabre Capital
3. Thomas Della Casa, Head of Research, RMF / Man Group
4. Jean Keller, CEO, 3A
5. Tony Morongiello, Partner, Caliburn Capital
6. Dr Stéphane Graber, Deputy Manager, Department of Economy and Health, Canton of Geneva
7. Nicolas Maduz, Managing Partner, Tiberius Group
8. Daniel Penseyres, Partner, Bedrock Group
9. Dr Gregoire Haenni, Partner, Bedrock Group
10. Gabriel Kurland, Founder, Hedge Fund Appraisal
11. Olivier d'Auriol, Founder, D'Auriol Asset Management
12. Eric Halff, Director, ARKION SA
13. Peter Sartogo, Managing Partner, Global Wealth Management SA
14. Joe Taussig, Founder, Taussig Capital

In this Roundtable Script, you will learn:

- What opportunities some of the world's leading hedge fund allocators and researches see - despite the ongoing turmoil
- With leverage, the big global growth engine until recently, having gone, what can we expect from emerging markets?
- How efficient risk management has saved a lot of managers, but allocators still find that when talking to hedge funds "they tell you the truth, but sometimes not all the truth"...
- A fundamental discussion on operational risk and due diligence: Are the promises of the fund-of-funds actually worthless when you take a second look?
- In what direction the current environment is forcing hedge fund-of-funds in order to survive
- How should the fund-of-funds community deal with side pockets?
- What is the true issue behind the liquidity discussion?
- Background on Jabre Capital's "incredibly successful" move to set up in Geneva
- How are family offices coping with the markets and a changing hedge fund world?

The participants of this Roundtable also elaborate on the **historic merger of the US/UK based hedge fund Fairfield Greenwich Group with the Swiss private bank Banque Bénédict Hentsch**, and why we will be seeing "a lot of hedge fund managers become involved in Swiss private banking". What are the "fundamental problems" of the hedge fund industry, and how can this new confluence address them?

Enjoy "listening in" to the Opalesque Geneva Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Cover Photo: Lake Geneva

Participant Profiles



Front row (left to right)

Benedicte Gravrand, Joe Taussig, Peter Sartogo, Olivier d'Auriol, Jean Keller, Gabriel Kurland, Thomas Della Casa, Dr. Stéphane Graber

Back row (left to right)

Mark Cecil, Eric Halff, Dr. Gregoire Haenni, Daniel Penseyres, Anne Simond, Tony Morongiello, Nicolas Maduz, Matthias Knab

Introduction

Anne Simond
UBP

I am Anne Simond, UBP Alternative Investments. I work within the Marketing and Business Development Department. UBP is a private bank with a large asset management arm. We are, as of today's ranking, the number one allocator in hedge funds with $56.8 billion invested in this industry. We offer a range of products covering all offerings within alternatives from fund-of-funds, advisory work, and discretionary work. The Fund was founded by Edgar de Picciotto in 1969 and is essentially owned by family members.

Peter Sartogo
Global Wealth Management SA

I am Peter Sartogo Managing Partner of Global Wealth Management an International multi-family office based in Geneva with operations in New York, London, Luxembourg, Milan and Rome. GWM is a multi-family office providing family office services to more than one family group. Our objective is to help them preserve and enhance their wealth over several generations. As of today the Firm manages Euro 1.8bn in assets. We are very involved in the Hedge Fund space by investing in well diversified fund of Hedge Funds and by making selective allocations to single managed Hedge Funds. I am happy to talk about this sector today and how we see it going forward.

Dr. Stéphane Graber
Department of Economy and Health, Canton of Geneva

My name is Stéphane Graber. I am Deputy Manager at the Economic Development Office. Our office is a fully state owned office under the Department of Economy and Health of the Republic and of State of Geneva. Our mission, amongst others, is to assist local companies in their development in Geneva, which includes startups and existing companies, and to attract foreign direct investments to Geneva. We are also involved in various decisions regarding the economic environment for companies. We aim to defend and improve Geneva's competitiveness in comparison to other regions or cities worldwide.

Daniel Penseyres
Bedrock Alternative Asset Management SA

My name is Daniel Penseyres, I am one of the Managing Partners of Bedrock Alternative Asset Management. We are part of the Bedrock Group which was created in 2004 as a multi-family, wealth management firm with offices in Geneva and London. We are the alternative investment arm of the Bedrock Group. Our business model is focused on designing solutions for both private clients and institutional clients with structures such as fund-of-funds, F3, and dedicated hedge funds mandate. The firm was created in May 2007, with my second partner Grégoire Haenni. Prior to that I was responsible for the hedge fund advisory group at Lombard Odier Darier Hentsch and Grégoire Haenni was responsible for the hedge fund dedicated mandates at Pictet and manager of the Asian fund-of-funds. We currently advise a book of nearly $650 million of hedge fund positions with over $2.5 billion of client assets. The Bedrock Group manages two funds-of-hedge funds and one single hedge fund.

Nicolas Maduz
Tiberius Group

My name is Nicolas Maduz. I am a Managing Partner at Tiberius Group. We are an independent asset management firm based in Zug with representative offices in Stuttgart, Germany and in Geneva, Switzerland. We specialize in commodities. We run a number of strategies, both long-only strategies and long/short strategies. In the commodities space we only trade futures. We don't trade in the equities market. We are today one of or the leader in Europe trading active commodities strategies, trading only active, not passive strategies. We run $1.7 billion in assets under management, and have about 25 people in the company.

Mark Cecil
Jabre Capital

My name is Mark Cecil. I am the Co-Founder of Jabre Capital. We started our business at the beginning of 2007 and are based in Geneva. Today we manage in excess of $4 billion across both traditional and hedge fund strategies and employ about 65 people in Geneva with offices in Singapore, Luxembourg, and the Cayman Islands.

Gabriel Kurland
Hedge Fund Appraisal

My name is Gabriel Kurland. I am the founder of Hedge Fund Appraisal. Hedge Fund Appraisal provides due diligence intelligence to hedge fund investors. We perform everything from background checks to full due diligence reports, and we also give support in gathering the information around the due diligence process.

Eric Halff
ARKION SA

I am Eric Halff of ARKION SA. I am a partner in this multifamily office with offices in Geneva and London. We are in total 25 people. The particularity of the office is that our main task or main duty is not asset management, but rather our focus is on administration, tax consultancy, legal, accounting and so forth for medium to large families. We also do some consultancy in terms of asset allocation and asset management performance calculation.

Tony Morongiello
Caliburn Capital

I am Tony Morongiello, one of the founding partners of Caliburn Capital. Caliburn Capital an institutional fund-of-funds that takes thematic views on investment opportunities and uses hedge funds to express those views and to gain exposures to investment frontiers. Caliburn Capital Partners is majority owned by its principals with the financial backing of Mizuho International which controls 29% of the partnership. We have been going since 2005, running about $1.4 billion with 45 people and offices in London, Geneva, Singapore, and Montreal.

Thomas Della Casa
Man Investments

My name is Thomas Della Casa. I head the Research, Analysis, and Strategy Group at Man Investments. We are part of Man Group plc, a world-leading alternative investment management business, which is part of the FTSE100 and manages over USD 70 billion. We offer a variety of alternative investment solutions and strategies from single hedge funds to highly diversified fund-of hedge-funds for retail and institutional clients. Our firm dates back 225 years, but of course we have grown and changed quite a bit over the past two decades.

Jean Keller
3A

My name is Jean Keller. I work for a company called 3A. 3A is a specialist asset management firm specializing in funds of hedge funds. We run about $5 billion of hedge fund assets. Headquartered in Geneva, we have offices in Asia and across Europe. We are part of the SYZ & CO Group, an asset management firm founded in 1996, with an excess of $30 billion under management.

Olivier d'Auriol
D'Auriol Asset Management

Olivier d'Auriol. I have been 25 years in the financial industry. I was head of bond management and Group bond funds at Paribas, co-headed SBS Geneva, and finally headed up Banque Privée Edmond de Rothschild in Luxembourg.

Ten years ago I started my own asset management company. We are now four people and are managing assets for higher net worth individuals and a few institutions, mainly independent asset managers. Five years ago we started our own fund, which invests in well-diversified funds of hedge funds. Our three biggest holdings, which represent today 60% of our investment are Absolute Alpha Diversified from FRM, Liongate Multi-Strategy, and Collingham Investments. We performed +10% net in 2007, +10% net per annum between 1999 and 2007, and for the first seven months in 2008 -4%.

We invest mostly with fund of hedge funds in which we are well-diversified. We build portfolios of funds-of-hedge funds who we believe have a superior approach to allocate to underlying hedge fund managers in terms of geography, tactic, and strategy.

Because of the systemic risk, which includes the total loss of assets of some asset managers, we invest in a minimum of ten fund-of-hedge funds that have little overlap in their investments. As a result, we are invested in about 340 different hedge funds; each of them representing less than 0.03% of our assets.

Joe Taussig
Taussig Capital

My name is Joe Taussig. My fundamental business is partnering with hedge fund managers to create insurance companies and banks. The motivation for the hedge fund manager is to obtain permanent capital. The fund investors are motivated by significantly higher returns without a proportionate increase in risk, far better liquidity, and tax efficiency.

The best known and most highly visible of the companies we have worked on in this area is Greenlight Capital Re with David Einhorn (symbol – GLRE). GLRE now has $1.2 billion in assets and no-

body can ever take them away, regardless of any increment of redemptions in the Greenlight funds. Buffett did this 40 years ago.

Opalesque's Matthias Knab is meticulous in his timing. He timed this Roundtable just in time for a press announcement that went out this morning, discussing the merger of Fairfield Greenwich Group and Banque Bénédict Hentsch, which I worked on during the last year.

There will be at least two, maybe four, major hedge fund managers starting Swiss banks in the next 12 months and I am part of that development.

Matthias Knab **Before we go into the Swiss hedge fund and asset management industry and the developments that Joe Taussig mentioned, I would first like to hear your opinion about the markets. What is your view? What strategies do you see working? What are you doing as an investor or as hedge fund?**

Thomas Della Casa I guess we don't have to discuss the current situation; we have to focus on where the opportunities will be going forward. We believe that global macro strategies and trend following strategies will do fine. The current market volatility looks set to continue and will create numerous opportunities for these managers. In fact, AHL, our trend following manager at Man, is up some 8% as per end of August and we believe that trading will remain good over the next couple of quarters.

The biggest single opportunity we think is opening up in credit, and particularly in distressed securities, we could see interest return soon. There has been a lot of forced selling due to deleveraging and the quest to free up risk capital. There were a lot of liquidations from the investment banks. Now we think that there is a lot of value in these markets, particularly in the U.S.

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Thomas Della Casa



I believe distressed securities will be in a similar position to 2003, 2004, when investors made over 20% with relativity small leverage. If you are brave enough and have access to credit facilities you might do even better. I think that's the biggest opportunity which is out there looking forward.

What we have been telling people - and we have been doing this for the past three, four months - is to take a look at credit and think about what your exposure could be.

Tony Morongiello I think you have to take a step back and look at the big picture and ask: what is happening? Why do we have this capitulation in the growth trade starting in June? The world is trying to price in global deflationary outlook, and Bill Gross came out with what I think is a very interesting statement back in August saying, "the only way we can avoid a deflationary shock into the system is by the U.S. opening up its balance sheet." So basically the U.S. has to reflate its way out of the problems and I think that the first step is this opening up of the US balance sheet is the bail out of Freddie and Fannie.

So if the U.S. allows us to remain on a path of global growth, then I think you can go and revisit growth strategies which have worked over the last two years; which following the massive correction that we have witnessed, is where we see a huge store of value and where at these levels you are getting very cheap growth.

What is and will be missing going forward is leverage, which was the big growth engine for the West until recently. Without developed markets being supported by easy credit the global growth engine has to come - still, I believe - from emerging markets. For example: the China growth theme, which is certainly not over. China can grow at +8.5% a year with no growth in exports. So China over the medium term will continue to fuel demand for energy and natural resources which implies that investors may well have to revisit the long energy and commodities trade.



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What is and will be missing going forward is leverage, which was the big growth engine for the West until recently. Without developed markets being supported by easy credit the global growth engine has to come - still, I believe - from emerging markets. For example: the China growth theme, which is certainly not over. China can grow at +8.5% a year with no growth in exports. So China over the medium term will continue to fuel demand for energy and natural resources which implies that investors may well have to revisit the long energy and commodities trade.

If the US does not reflate and does not use its balance sheet to buy us out of this deflationary problem, well, then we have a really serious issue that we will all be gravely concerned with for a very long time to come, and that is deflation. And from deflation there is really no hedge, except probably the US dollar. So in my view, at least for the current moment, this is the big picture, and maybe that big picture will be a bit clearer over the next couple of months.

Olivier d'Auriol

I agree with that view, I think there is growth because of the attitude of the central banks in America and in China. I think growth will come back in the Dollar based countries, which span from the U.S. through China. There may be zero growth in the U.S. this year, but still growth will come back in the Dollar based countries. I also think that in those countries inflation will continue to grow dramatically. I believe Europe will try to stay disconnected from the Dollar based inflation letting the Euro go up against the Dollar in the next five years by just keeping interest rates with 2-3% higher than U.S. rates. So we see opportunities, many investment opportunities in the Dollar based environment in the next 3 or 4 years.

At present it is crucial to be able to invest in liquid hedge fund managers (monthly liquidity) that have a more trading and opportunistic approach such as volatility, CTAs … this should enable asset allocators to make changes in more illiquid funds/strategies as the opportunities come along.

Regarding credit and the distressed sector that was mentioned by Thomas, this is a great sector for us going forward, but will be crucial to be able to anticipate the turning point, so timing will have a big impact. Who invested in these managers at the beginning of this year found out that was to early … we think in the next 6 months will be the correct timing to increase these managers.



Peter Sartogo

Peter Sartogo

At present markets are very nervous and react only on the latest news and everybody's client being institutions, pension funds, private clients are all extremely worried and nervous. This changed completely their original approach to the investing world. From being long term investors they became, in a very short period of time, very short term investors rushing to raise liquidity and for safe assets. This has generated a huge cash pile that is sitting on the sidelines.

We believe this will stay on the sidelines till the sky looks more predictable and clear. But valuations are at very low levels and, as an example, the spread between the S&P 500 Earnings Yields and the 10 Year Treasury Yield is now 510bp the highest ever in favor of stocks! So if you have committed long term clients this is one of the best moments to be investing. The problem is this commitment of being long term that at the moment is being challenged! Even hedge funds that have always stated to be long term investors in the companies they invest in and that have a

concentrated portfolio are struggling to keep the investors due to the recent poor performance and this puts at risk their ability to survive.

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As you know it's difficult to predict the weather few days out, so how we can we predict the market four or five months ahead. But there are a couple of things that are worth mentioning.

The first one is return on assets. Return on assets is expected to go down and today it appears to be difficult to extract value from trading assets. The last few months witnessed sharp market trend reversals in a rising volatility context which impacted nearly all hedge fund strategies. A recent study by Legg Mason showed that back 1950 nearly 45% of all securities were owned by individuals. Today it is clearly the opposite. Securities are mainly owned and traded by a wide range of institutions from banks to investment and pension funds and other investment traditional and alternative vehicles.

Secondly, one could argue that with all tools and techniques available, the velocity of prices, rapid change in trends are occurring faster and faster. This may probably explains why selected CTAs have managed to obtain some success in 2008. If returns on assets expected to be lower than in the recent past, pension funds for example will question providers on the premium to be received from illiquid investments compared to a diversified portfolio expected to return a Libor plus performance. So the question is what can be done to quantify the premium on liquidity.

... The third element is even more dangerous, and I am referring here to the funding aspect. Those who lived through 1994, 1998, probably 2000 and 2003 noticed that when investors redeemed massively, the portfolio could become completely unbalanced, pushing managers to liquidate whatever can be sold; leaving investors to stay in the fund to be either paid in kind or eventually get some money back when the fund is liquidated.

Today we are confronted with two funding dimensions. There is funding that comes from the bank, and the funding which comes from the investors. In my view, the major issue today is trying to understand what's going on in the market in next two or three months. Assessing volume of redemptions is one; evaluating the various counter party risk is another one. This is a difficult and time consuming exercise yet it has to be done. The important issue is how a hedge fund-of-funds need to run its asset and liability management and related risks.

You are dealing with the funding from the brokers to the hedge fund, the funding from the investors to structure your fund-of-funds, and the market forces which then impact your strategy.

Daniel Penseyres



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You are dealing with the funding from the brokers to the hedge fund, the funding from the investors to structure your fund-of-funds, and the market forces which then impact your strategy. People probably need to rediscover the basics of investing. We all know that 90% of the performance is the asset allocation. We believe this is still a valid concept and we wonder if, in a lower rate of return, an allocation to alternative investment strategies with managers using a multi-asset class approach could be another solution.

We believe that agility to move from one asset class to another could become a key advantage. With these difficult markets, you have to behave like Vietcong in the jungle; you can no longer be like Napoleon's army marching in 15 lines of infantry - you'll get shot down. Today, you have to be extremely agile, you have to adapt, and your size and ability to move may matter. To illustrate the point, one day you have to be an expert in special explosives, another day a specialist in construction and tunnels, another day an infantry expert, or a telecommunications scrambling guy. This kind of flexibility is key not just to perform, but simply to survive.



We have recently launched a distressed fund-of-funds in June and whereas some of our competitors have argued that it was too early, we did not have any dilemma with respect to timing since the first investment stage of the fund's strategy is stressed – before distressed – and we have seen many opportunities in the leverage loan and high yield markets. The fund is currently closed and will reopen as and when distressed opportunities arise. We believe emerging markets will also offer opportunities in 2009.

Anne Simond

Anne Simond

When it comes to strategy selection, I would agree with what Thomas said: CTAs, macro, long-short equity with low net exposure, fixed income arbitrage, volatility arbitrage. We are also in the process of restructuring our portfolio management and research teams to facilitate the identification of appropriate managers for our various strategies. We are focusing on managers who are nimble enough and able to extract opportunity in these dislocated markets. This is a challenge, and we demand a lot from our research analysts.

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Gregoire Haenni

We have a new constraint when we manage fund-of-funds, and this new constraint is that a manager can go bust within months. It is also our view that short-term oriented managers, trading oriented level macros, short-term CTAs, where size matters and distressed strategies are likely to outperform in the coming months.

We have to focus today more on operational issues than before, particularly focusing on highly liquid portfolios. Risk management is possibly more

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Gregoire Haenni



important than ever. These days we have seen that efficient risk management has saved a lot of managers. From a fund-of-funds perspective, the investor base of a hedge fund is also something we look at. The investor base has to be diversified and the company must have enough internal resources to retain the talent.

Mark Cecil

The recent growth has been fueled by excessive liquidity and we have entered the correction phase of deleveraging. This deleveraging period creates a technical markdown, which for fundamental buyers creates interesting opportunities. When asset classes have been marked down across the board, you have cheap securities that begin to reach very interesting valuations.

However, the problem for a manager is to time when you go from a technical sell-off to a fundamental valuation and whilst you are waiting for that, you need to be very liquid. You also need to be very patient because if the selling pressure continues stocks may look cheap but won't go anywhere, apart from backwards.

Our focus at this moment is on convertible bonds. If you look at the long term relationship with convertible bonds and equities, you will find that it has been very consistent for a number of years. Over the last year however, you can observe a massive dislocation from that relationship. It's still probably too early to call the bottom, so we have a lot of liquidity in our portfolio while we try to find that time when the fundamentals come back and allow us to take advantage of these huge opportunities.

Jean Keller

There is a tug of war at the moment and if I can be a bit provocative, I find myself a bit on both sides. On the one hand, you have the idea of trading volatility, using shorter-term managers, and that the world is still going through this really difficult technical restructuring, the fall-out from the financial crisis. So we have managers who protect us in that case, a sort of continuation of the "end of the world" scenario. On the other hand, I also agree with Tony that we have to focus on the next phase of growth. One thing I know for sure is that we will probably survive the current crisis and go on to bigger and greater things, and so we have managers who will do well in an environment of return to normality.

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Jean Keller



Our investment style at 3A is really to let the managers express their talents. We are trying to be as agnostic as possible as to what's going to happen in this asset class or that asset class. We don't view ourselves as the driver of the car; the underlying hedge fund manager is the driver. We are just trying to layer the portfolio together intelligently so that the investor has his desired outcome in different kinds of market environment.

Having said that, I actually think it's a bit early for distressed strategies... We have had a financial meltdown and we haven't yet seen the fall-out from the straight economic slowdown we are experiencing now in different economies. People are still grossly over-optimistic about the growth expectations in Europe, and about what they are looking at in terms of growth in Europe. There will be some disappointment in the distressed field, at least within the next 12 months.

Nicolas Maduz

Speaking from the commodities perspective, I agree investors are looking for the next phase of growth, and obviously commodities are part of it. Commodities are still a market where, as a hedge fund manager we can extract quite a lot of alpha.

Lately the commodities markets have experienced a lot of chaotic moments. We have seen markets tumbling down and some hedge funds ran into problems. It is an easy trade to leverage up and take big directional bets when everybody says crude oil is going to $200 a barrel. With one sudden turn-around - that is when you see people having problems. But those who have a tighter and more risk adverse approach, things still work out.

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What we do at Tiberius in such an environment is to minimize the risk by not taking too big bets in our trades. We look at relative trades with the aim to create alpha in a consistent manner with low risk in the commodities sector. Due to the diversified universe of commodities and commodities underlyings that we trade, there are a lot of opportunities of that kind. I can say that at Tiberius, we are very happy with the current conditions, even though the markets are hard to trade in general.

Nicolas Maduz

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Matthias Knab **From an allocator point of view, how has your risk management changed in the past year?**

Jean Keller The biggest change has been the focus on liquidity risk. This is an area on which no one had really focused before. There was always a lot of ink spent on operational due diligence and all sorts of risk, but when it comes to liquidity people realize that it's sort of "one strike and you're out". Without being rude and mentioning names of heavy bankruptcies, I think that people have learned their lesson the hard way.

I am personally extremely cynical about the way the hedge fund or fund-of-hedge-fund industry is looking at risk and specifically at operational risk. There is this huge demand from institutional clients pressing on the fiduciary responsibility, making sure that in the allocation and due diligence process we can tick all the boxes and have looked at all the aspects. This leads to a situation where a lot of what is being done today is not done because there is a straight good business or risk management reason to do so, but just because our clients want risk management procedures to be carried out.

Operational due diligence is a very, very good example here. Yes of course, hedge funds do fail in the first three years of their existence in greater number, and surely misappropriation and business failures are a great risk, but in my mind you can't look at risk in a binomial, black-or-white type of way. I am afraid that the whole industry is trying to lean towards the pension fund side, the institutional side, and as a result just trying to build things because that looks good, as opposed to because they believe in it.

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I am kind of lost when it comes to the number of fund-of-hedge-fund managers who tell me they would not invest in a hedge fund that does its own administration. Yet most funds of hedge funds are invested with the large hedge fund players who are their own administrator, with often substantial positions. These fund of funds are forgetting their principles and bending the rules at the first moment they can, and for me this is a proof that their rules are actually worthless.

Jean Keller



would not invest in a hedge fund that does its own administration. Yet most funds of hedge funds are invested with the large hedge fund players who are their own administrator, with often substantial positions. These fund of funds are forgetting their principles and bending the rules at the first moment they can, and for me this is a proof that their rules are actually worthless.

The point about risk in my mind is that it's not binomial; it's not black-or-white. It's a continuum and our clients actually pay us to decide what kind of risk we need to take on their behalf. And of course operational risk is a big element of that, but I don't think that it can be done the way its being done currently, that is the industry's tick-box approach: yes, they have an independent pricing function, yes, they have separate administrator, etc. I think the new model has not yet been invented and I think that the pension funds carry some responsibility for the way this is going.

Olivier d'Auriol

As investors in fund-of-hedge funds, the recent dramatic lengthening of the lock up and redemption notice period is bothering us quite a bit. The very good managers tend to lengthen this period because they just do not want to be caught in an environment where people need liquidity.

And worst performers of course would like to put a lock up as long as possible to keep their clients as long as they can. I think this trend for higher lock ups will continue with the best hedge funds and fund-of-hedge funds hiking up the lock up to two or three years and probably adding a redemption notice of one year. For me as a foreign investor, this is of course not very agreeable.

Tony Morongiello

I am going to try to be a bit provocative regarding what Jean Keller was saying earlier about letting the managers express their talents, whilst FOF managers should remain agnostic as possible as to what's going to happen in this asset class or that asset class. To some degree, this perspective is based on the assumption that we are investing in masters of the universe that can generate returns in all the environments.

Well, the "master of the universe hedge fund" has probably left the building and subsequently as fund-of-funds managers, we are going to have to question our business model: What if we actually have to express investment views, what if we actually have to manage our beta exposures and decided which are the long term themes that have the wind behind them...It's not enough to sit back and say "well, I invest in a pool of hedge funds that I expect are going to give me a set return for a given amount of risk."

Well, the "master of the universe hedge fund" has probably left the building and subsequently as fund-of-funds managers, we are going to have to question our business model: What if we actually have to express investment views, what if we actually have to manage our beta exposures and decided which are the long term themes that have the wind behind them...It's not enough to sit back and say "well, I invest in a pool of hedge funds that I expect are going to give me a set return for a given amount of risk."

That amount of risk is much more difficult to measure today and I absolutely agree with what Jean says that in fund-of-funds industry there is a lot of attention paid to form and not enough to the substance. A lot of the due diligence process is done for the form because we believe that our clients expect this. Whilst we don't take a step back and say, what are the real operational or investment risks that we are facing? It might be liquidity risk or it might just simply be that we are not equipped to make the long term fundamental calls that we are increasingly going to have to make. Deciding whether there is growth in commodities, or what oil supply and demand are going to look like are going to be key calls for the next three years. And I think we have to equip ourselves, like any other investment management business, with real investment management skills.



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Mark Cecil I think there will be a pressure from investors for lock ups to reflect the liquidity of the underlying assets. When we launched our fund last year, we had very easy liquidity terms which reflected the liquidity of our portfolio. As a result investors have stayed with us very happily. I think people with long lock ups are going to find it increasingly difficult to attract assets because the underlying investor won't be able to match his own liquidity with their terms.

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In addition, a good reason for hedge fund managers to offer good liquidity terms, is that when they start seeing redemptions, they should see it as a wakeup call. Redemptions mean they are not meeting their client's expectations. We have seen in the past hedge fund managers with long lock ups that have had bad performance and, rather than step back from the market they have stuck with their beliefs and got into a deeper and deeper hole.



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Nicolas Maduz I agree with that 100%. The relationship between manager and the investor is based on trust and being accessible. That was one of the reasons why we set up an office here in Geneva - to represent ourselves to our investors. On the asset side being accessible also means giving the best conditions to your clients. Just think about it this way, if it was your money going to a hedge fund or any investment, you would be glad to be able to get in and out as quick as possible. Tiberius is one of the few hedge funds trading commodities that offer daily liquidity on all of our funds. This is not something impossible to do. We have done it from day one and it works perfectly. We have seen some small redemptions because people needed the money for other purposes. But it can come back quickly too, as the fund can be subscribed on a daily basis also. All of this, together with the transparency which we offer, makes things so much easier.

Peter Sartogo Liquidity is a big issue, especially when everybody is looking for liquidity. Lock ups should be a reflection of the underlying investment liquidity, but it is not always like this. Many star managers when they set up their shop they use their fame to fix long lock up terms including side pockets. Till the bull market lasted most of the investors didn't have a lot of choice, but now in my view lock ups will slowly disappear or stay only if appropriate and this should help risk management.

Daniel Penseyres We all know that the return is a by-product of taking risk and if you move the risk off the table you are not going to get a return. At certain times I wonder if there are different types and motivations in risk management. There is a risk management to protect the brand, a risk management to protect the portfolio, a risk management to protect those particular decisions of the investment management - it is sometimes very hard to identify which one to look at first.

In the last couple of months I have also noticed that when you start talking with hedge managers they tell you the truth, but sometimes not all the truth - without intention maybe - I believe there is a tremendous amount of cross checking to be done. We have noticed this phenomenon on and on and as an investor you have to do your due diligence and ongoing monitoring.

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In the last couple of months I have also noticed that when you start talking with hedge managers they tell you the truth, but sometimes not all the truth - without intention maybe - I believe there is a tremendous amount of cross checking to be done. We have noticed this phenomenon on and on and as an investor you have to do your due diligence and ongoing monitoring. This is hard work but Geneva is a fantastic place to discuss and share ideas on this industry.

The last point I would like to mention, is a statement made in the press a few years ago by Mr. Georges Karlweis. He said that risk management measures are creating a pasteurization of the hedge fund industry. This means that if investors want to remove much of the risks, then returns will go lower, which may result in pension funds deserting the hedge fund industry.

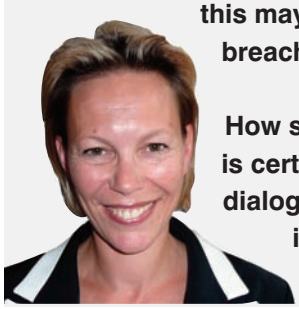
Now, one could question these risk management approaches, yet I observe that today we do need to ask more questions about counter party risk, third party risk, credit lines probably more focusing on operations rather than strategies. The due diligence process is clearly changing; requiring teams with diversified background, this is surely getting more and more difficult and effectively more costly.

Anne Simond At UBP, we have three layers of risk management. There is the due diligence level, before the hedge fund manager approval process, where our structural risk assessment team (SRS) looks at non-investment: essentially operational risk, including independence of service providers, counterparties risk, pricing policies etc. The team was set up more than 10 years ago and is made up of eight people - all essentially qualified accountants or lawyers. They have a very strict state of the art process, including an element of ticking the box, however the exercise goes far beyond just ticking boxes and our process has been adopted by some hedge fund managers as benchmark. Our SRA analysts are in constant dialogue together with the qualitative analyst, with our hedge fund managers and visit them at least once per year.

The SRA team has a right of veto in terms of getting a manager on our list of approved funds, and I can witness that this right of veto is actually exercised a few times within a year.

We also have an analyst dedicated to asserting risk management and risk management process within managers we invest in. This provides a second layer of risk management. Then our Risk Advisory team looks at risk at the portfolio level using qualitative and quantitative (VAR) analysis and providing risk budgeting analysis on our various portfolios.

We discussed liquidity and the trend towards longer lock ups, but we haven't mentioned the increasing use of side pockets by hedge fund managers. They are worse than lock ups, since you have no certainty regarding your exit date and payment of proceeds. This is a real issue for fund-of-funds managers since this may prevent them from meeting the liquidity conditions of a FoF and thereby put them in breach of their fiduciary duty towards investors.



How should the fund-of-funds community deal with side pockets? The use of the credit line is certainly not the option. The hedge fund-of-funds industry would benefit from more dialogue amongst the big players to discuss with hedge fund managers these liquidity issues including side pockets.

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Olivier d'Auriol

I would like to remind you that scientific risk management is a very new discipline which has been developed only very recently. The academics, the mathematicians, and engineers brought their algorithms into finance and help us and the managers to measure risk in a much more developed scientific and precise way and precision than it was possible just a few years ago.

Scientific risk management is a very new discipline which has been developed only very recently. The academics, the mathematicians, and engineers brought their algorithms into finance and help us and the managers to measure risk in a much more developed scientific and precise way and precision than it was possible just a few years ago.

At the same token, and I find this quite surprising, is how little our clients know about mathematics. If you go to someone and tell him "assuming you had $85 at the beginning of the year, and $15 at the end of the year, what's the percentage of your performance during the year?" you will find that few institutional and private clients are able to calculate this simple number. I did test it on many bright people, and you would be surprised with their answers.



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I think the tools are incredibly important, however we need to be aware that having tools does not necessary mean they are understood or applied correctly. I think people forget that the conceptual framework of modern portfolio theory was never made for the asset management industry. It was made for the corporate finance world. In that sector, making the hypothesis that markets are efficient makes sense and is incredibly helpful, because as the CFO you cannot make any other hypothesis.

The problem is when you are on the other side of the mirror. There, this conceptual framework doesn't work at all, mainly for two mathematical reasons. For one, utility functions are neither continuous nor linear, and second, the efficient market theory. I doubt that anyone here will agree that the markets are entirely efficient or entirely inefficient, and we could probably spend the whole day talking about just this issue.



It seems to me that we have not yet found the proper conceptual framework, and Olivier is right to say that a lot of people are using tools, concepts or numbers, without having understood the conceptual framework behind them. It's a bit like when looking at your blood results from the doctor, you are under five with your cholesterol, so your results are somewhere in the middle of the "minimum" and "maximum" band. Likewise in asset management and finance, everyone is happy because we measured tracking error, we measured value at risk and it falls within the parameter, but it doesn't actually mean much.

Jean Keller

you will find that few institutional and private clients are able to calculate this simple number. I did test it on many bright people, and you would be surprised with their answers. So if most of them don't understand the simple mathematics, you can imagine that the mathematic used in the management of hedge funds and used in the measurement of risk is possibly too powerful to be understood by our client.

Jean Keller I think the tools are incredibly important, however we need to be aware that having tools does not necessary mean they are understood or applied correctly. I think people forget that the conceptual framework of modern portfolio theory was never made for the asset management industry. It was made for the corporate finance world. In that sector, making the hypothesis that markets are efficient makes sense and is incredibly helpful, because as the CFO you cannot make any other hypothesis.

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On liquidity I just want to take a provocative view. True, one of the greatest risks in hedge funds is liquidity risk. As a result, firms and funds fail, because they are no longer able to meet redemption requests. We are not so concerned about liquidity, and the reason is that I think it is much better for investors to accept terms that match the liquidity risk of the underlying strategies.

So, I am much more favorable to someone that tells me: "look guys, if there is a crisis, I won't be able to give you your money back in three months". You know you have to accept other terms. Therefore, I wouldn't be with a manager who is just trying to be friendly with his investors. He is

very charming when we discuss and when you have the dialogue and we all like each other but when the thing explodes it just goes to zero.

I view a hedge fund, or the whole hedge fund industry, as the quoted Mr. Georges Karlweis before, as the fall-out of possibly too much mathematics and too much portfolio theory in the traditional asset management business. What I mean is at the outset a lot of people didn't fit into that traditional framework, and they decided to be on their own in a world that was much more unconstrained.

The question that one has to ask oneself when one looks at a hedge fund - like any other investment - is: does it add value to me? The whole point about liquidity is that hedge funds give you access to some asset classes, some trading techniques that you wouldn't get in the traditional markets. If accepting a little bit of constraint on the liquidity side does give you the different return framework, I think it's worth it.

Jean Keller



To a large extent, that is exactly what is happening in the banking sector at the moment. Only about 21% of sub-prime debt has defaulted so far, yet all the CDOs are priced like it's worth zero, it's completely dead and I think we have to be extremely careful that we don't push the hedge fund industry in taking liquidity risk, which of course is a little bit like carbon monoxide: you never see it, and it kills you.

Anne Simond Some managers having large redemptions are restructuring their funds and sending their investors corporate action letters asking them to vote on extensions of notice period or redemption delay. Very often to gain time!

I agree with Jean, you should definitely give the managers the liquidity required by the investment philosophy, but we have witnessed that some hedge fund managers have liquidity out of sync with their strategy. If a fund has 40% redemptions, he certainly doesn't want the gate to be triggered, which is fair enough because a gate pretty much equals liquidation. So he will come to the investor asking "please move to this new share class with longer liquidity." That's a dilemma we are facing at the moment, with the pressure on liquidity. Now what shall we do with that kind of situation?

Jean Keller We have to be careful about why we are doing something... are we just lowering the liquidity, just because it pleases the clients and the pension funds?

I just want to put another case for high liquidity: a long/short equity manager who has very liquid assets, but doesn't want to be on the road for marketing purposes. We all know the typical caricature of a hedge fund, which is an investment partnership with one managing partner who runs the money, and his thoughts are unencumbered about raising money or about client issues, and that frees his time to think about investments.
I am not saying they all think like this and that all the lock-ups are justified by this. But, by the same token, I know that asset gathering is usually the sure death of an asset management firm, and it's been proven time and time again. If you look at the very large firms in the traditional asset management business, you usually find them at the trailing end of the ranking with a vast majority of their products.

The point is that we have to be very careful. I view a hedge fund, or the whole hedge fund industry, as the quoted Mr. Georges Karlweis before, as the fall-out of possibly too much mathematics and too much portfolio theory in the traditional asset management business. What I mean is at the outset a lot of people didn't fit into that traditional framework, and they decided to be on their own in a world that was much more unconstrained.

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you access to some asset classes, some trading techniques that you wouldn't get in the traditional markets. If accepting a little bit of constraint on the liquidity side does give you the different return framework, I think it's worth it.



I think the liquidity problem arises because as fund-of-funds providers we are trying to address too diverse a client base with the same liquidity terms. This compromise is going to have to end, because you cannot structure the same product for a private client base and for a pension fund. The pension fund consultants that we speak to all want long-term products and do not appreciate being commingled with investors that require monthly liquidity.

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Daniel Penseyres

This raises a very interesting question which could have an answer from the real estate market. Do you want to be the owner or do you want to be the tenant? Or should you own your fund or be part of another one's product? If your target portfolio is subject to other people's liquidity constraints, emotion or liquidity desire, would you like to be in that fund in the first place? We believe that, if you are large enough investor, you should probably own your fund created by group able to design a solution for you exclusively. This would certainly remove the risk of other investors being emotional and pulling out the liquidity when you need your portfolio to weather a storm.

So, I think going forward those who can afford it should eventually own their portfolio, rather than own the emotions of other people in a third party fund. I believe that several Swiss institutions have taken this approach already.

Matthias Knab

Gabriel, you deliver due diligence service to your clients, and you are based in Geneva - which by the way is a sign of how the hedge fund industry matures and diversifies in Switzerland. Can you comment on any new developments regarding due diligence?

Gabriel Kurland

There was an interesting study published at the beginning of the year by the New York University Stern School of Business about due diligence, and basically the study is finding that due diligence is bringing alpha, especially operational due diligence.

They also found that there is definitively a disadvantage regarding smaller players versus larger fund-of-funds managers in terms of the alphas they can add into due diligence. This is where we at Hedge Fund Appraisal want to add value. We found that large banks or large investment managers usually have an internal department that is doing their own due diligence, but smaller or medium sized players don't have the resources, because their smaller asset size does not allow to devote enough resources to do a full due diligence.

Access to information is one of the key challenges in performing a due diligence. If companies cannot devote enough resources to the process some will prefer not to know rather than base their investment decisions on half the necessary information.

Investors should not follow a tick-box approach, but rather a relative approach based on the

particularities of each strategy. At Hedge Fund Appraisal, we have developed a ratings system based on this approach. Obviously, hedge funds don't need the same size of trading desk for value long-short manager who maybe trades once a week compared to global macro managers managing portfolios composed of hundred of positions a very high trading velocity.

We find ourselves in a very interesting time as a due diligence provider. Risks that were previously overlooked by both manager and investors are now re-emerging. If we take the counterparty risk as an example, we find more and more hedge funds using multi-prime brokers and we see this causing more issues. On the one side the fund manager diversifies his counterparty risk, but he will also need to invest in more technology and devote more resources to be able to manage these multiple relationships with different brokers.

Just to finish with what we do at Hedge Fund Appraisal, we don't provide a mere outsourcing solution or take the place of the investor, rather we provide "due diligence intelligence". We try to identify hidden risks , based on our experience that investors should be aware of before taking an investment decision.

This is a quite interesting consolidation that we see, for example with Fairfield Greenwich and Banque Bénédict Hentsch. I think that Banque Bénédict Hentsch had quite a small hedge fund department, and teaming up with a very large hedge manager is perhaps a way that banks can follow to buy expertise at perhaps an interesting price today.

As a hedge fund manager, we have seen this increasing trend towards operational due diligence. People forget that everything that a hedge fund manager does is scrutinized by a third party custodian, the prime broker, the fund administrator and the auditor - so you automatically have checks and guards.

My sense is that a lot of operational due diligence is part of the marketing process to help fund-of-funds sell products to their institutional clients. At the end of the day, most of the big hedge fund blow ups over the last ten years, have either been due to deliberate fraud, which is very difficult for anybody to detect, or pure intellectual failure, which is not going to be picked up by operational due diligence.

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Eric Halff I am taking three things away from this Roundtable as a non-specialist. For us in a multi family office, where we are being asked everyday to help the client in his asset allocation, including by way of finding suitable hedge funds, it is and will be increasingly in the future, a very difficult task.
I am not really going away with a lot more comfort than when I arrived, honestly. That's one thing. What should one do to help people like us? Where should we turn to? That is one thought I want to express.

The other issue I would like to point out is that we have come a long way from 20 or 30 years ago, where each client had his single asset manager in one or numerous banks. The client liked to go out and have lunch and then discuss for a short while his lines of investments in his portfolio.

The other issue I would like to point out is that we have come a long way from 20 or 30 years ago, where each client had his single asset manager in one or numerous banks. The client liked to go out and have lunch and then discuss for a short while his lines of investments in his portfolio. Today remains the lunch, but the discussions on the investment lines remain usually vague and are regularly completely out of the range of understanding of an average client.



What I am missing in Geneva – although it is my understanding that we will have a lot of fund-of-funds managers who will establish themselves in Geneva for obvious reasons – is the single manger industry. We don't have the same network you will find in New York or London or other places, where the single managers together with the fund-of-fund managers and the family office specialists and other experts form an industry. That is meaningful for the client. In Geneva he cannot follow the investment process trail from start to end. Here we are very remote from realities of the practical investment process but only deal in virtual assessments.

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Today remains the lunch, but the discussions on the investment lines remain usually vague and are regularly completely out of the range of understanding of an average client. Today, many more parties are involved in the investment process and all kind of gaps occur in the explanations received by the client. However the trust of a client cannot rely on just the traditional relationship with an asset manager, but he has to rely on many studies or due diligence work which other people do who he doesn't know and which professionalism he cannot appreciate. How do we go about this?

Thirdly, what I am missing in Geneva – although it is my understanding that we will have a lot of fund-of-funds managers who will establish themselves in Geneva for obvious reasons – is the single manger industry. We don't have the same network you will find in New York or London or other places, where the single managers together with the fund-of-fund managers and the family office specialists and other experts form an industry. That is meaningful for the client. In Geneva he cannot follow the investment process trail from start to end. Here we are very remote from realities of the practical investment process but only deal in virtual assessments. That is something which is difficult for us to sell to clients.

Matthias Knab **So what's the future of the Swiss asset management industry?**

Peter Sartogo The asset management business in Switzerland and Geneva has only started in the last years.

But we will not see a revolution or a fast and huge change in the way Switzerland is perceived and in the way you will see talent relocate to Switzerland if there is not a specific need to do so. Regulations can help the speed and the attraction for managers to base their business in Geneva but I think Switzerland will stay more as a private banking hub rather than an asset management hub going forward, unless something really appealing is done or changed to attract talent here.

Jean Keller I think the big challenge for developing a single strategy industry is not so much the tax regime or the housing or how many schools there are in Geneva, but the availability of talent. The point about Switzerland, and I just said Geneva, but it applies even more to Zurich, is that, if you are a large hedge fund trying to set up your business in Geneva, you have to bring your own talent, as the talent pool simply isn't there.

Geneva is a fantastic center for private wealth management, and we can compete with any other region as far as private banking is concerned, but when it comes to asset management, we have lost that war. We lost that war about 30 years ago when the Swiss stamp duty pushed everything back to London. I think it's going to be very hard for us to regain territory, and I don't think

Switzerland has the stamina to farm this talent here. This, by the way, is also why I think that hedge fund and private bank tie-ups that we see now happening will be very successful.

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Jean Keller



Mark Cecil I think you have lost the battle but not the war because the talent can be trained very quickly. There is not a shortage of intelligent people in Geneva; it's just the shortage of people who have been trained in the skills the hedge fund managers require.

We are one of the first hedge funds to move to Geneva and it has been incredibly successful for us. When we came here, we were hoping to recruit a lot of locals but weren't able to find the necessary skills. However, we were very successful in attracting people to come and move to Geneva, mainly for lifestyle reasons, or the opportunity for a change in their lives.

I think you will see more and more investment firms come to Geneva and as a consequence a pool of talent will be created. That talent pool will initially be made up of outsiders, but over time more and more locals will be able to join it.

We were surprised by how interested people from around the world were to come and work with us in Geneva. Today we are about 65 people, of which probably more than half are highly paid and highly skilled people from other parts of the world who have come to Geneva and embraced it.

The people that we have recruited from Geneva, maybe at a lower level than we were hoping for, are being trained and being promoted, and will no doubt be of interest to the next wave of managers who set up their shop.

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Mark Cecil



In my view, Geneva and Switzerland have a good opportunity at this juncture to become a major player in the global marketplace.

Joe Taussig

I have an experience that fits this. I started the first investment banking firm in Bermuda in 1990, and we were quite lucky, because the insurance industry took off in 1992. It eventually became the second largest in the world. We did that in a place that had only 50,000 people. We brought in talented people and they trained the locals in the business. Today, there are a number of Bermudians who are running major global insurance companies.

One of the ironies is that ACE Insurance, the largest insurer in Bermuda had a Bermudian as its CEO until three years ago. Ace just moved its headquarters to Zurich. One reason is that immigration has become very unfriendly in Bermuda, kicking all expatriates out in after six years on the Island.

Switzerland on the other hand, has ratified the Schengen treaty. Therefore, anyone with an EU passport can physically work here, and even people that don't have an EU passport have the ability to come here, work, contribute, and become permanent residents or citizens.

I have been a resident of Switzerland for five years, and I am now a Swiss citizen. I cannot imagine a better place to live or work and doubt that I will ever move again. I have been psychologically unemployable for almost 35 years, so I have started more than 50 companies during that time. These companies employ thousands of people and the multiplier effect accounts for many more.

Sadly, Switzerland, and particularly the German side of Switzerland, is far too commercially and socially punitive for failing in anything that you try or start. I doubt that I would have even tried to start one new company, much less the numbers that I have done, if I had been born and raised in Switzerland.

I spent a lot of time - the better part of last year - on the merger of the US/UK based hedge fund Fairfield Greenwich Group with the Swiss private bank Banque Bénédict Hentsch. You are going to see a lot of hedge fund managers become involved in Swiss private banking because the overlap between the hedge fund industry and the private banking industry is significant and the Swiss government has (rightfully) made the building of a Swiss hedge fund industry a top priority. A lot of problems we are discussing about the hedge fund industry can be addressed by this confluence.

One of the big problems is that the fundamental structure of the hedge fund industry itself is unstable. Let's examine some of the big blowups, or look at how some of them went out of business.

Joe Taussig

Most of the innovation I see in Switzerland is in the French side, and hopefully that will change with time. We encourage every young person that has a chance to get an education or work experience overseas to take it; run to the US, run to London, but come back, bring these skills back here and contribute to society as a builder of things new and innovative.

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One of the big problems is that the fundamental structure of the hedge fund industry itself is unstable. Let's examine some of the big blowups, or look at how some of them went out of business:

I would not say Tiger blew up, but it went out of business. At $22 billion, it was the largest hedge fund in the world. But when it had losses, investors redeemed, assets were liquidated into falling markets, causing more losses, redemptions, and liquidations in a spiral.

The problem is that the high watermark drove out all the talent. XL Capital, our biggest client at the time, gave $500 million to the number two and number three at Tiger to start Front Point, and they took 30 troops out the door, because there weren't going to be any performance fees.

Even though Julian Robertson is a billionaire, the total compensation at Tiger was a lot more than a billion a year. So Robertson couldn't just go into his pocket and make up that difference. If they started a new fund, there would be performance fees immediately for doing the same thing at Tiger where there would be no or less of a bonus (if Robertson paid it personally), so they left and no one would replace them at the old fund.

The hedge fund had $6 billion when it went out of business. That's still enough assets to be viable. Investors still had returns since inception in excess of 20%. Many would have like to have had the opportunity to stay.

Compare Tiger to Berkshire Hathaway for a moment. Similar investment styles (both in U.S. Air) and even though they both avoided the "new economy", when the dot com bubble burst it took everyone down and Buffet suffered his only year on year reduction in NAV per share.

The difference? Buffett had permanent capital. When Buffett had losses, unhappy investors could only sell their interests on the stock exchange. He did not have to throw gasoline on the fire by liquidating assets to meet redemptions and he avoided the spiral that befell Tiger.

Buffett was a hedge fund manager for 13 years. He took $5,000 of his own money and turned it into $25 million, just on performance fees over a hurdle and the after-tax reinvestment of those performance fees. Then, all of a sudden, he quit cold turkey, to go into reinsurance and banking, because those are permanent capital vehicles.

I think you are going to see a lot more of this. We could see this in Bermuda in the insurance business and now, for comparable outcomes, at the first time, a major hedge fund has gotten into the Swiss banking business. The reason why I think we will see a lot of such deals is because it addresses a lot of the issues of the instability of the platform. It has huge tax benefits for US investors and managers; it gets them around the PFIC taxation. Lastly, it is also a way to monetize the hedge fund manager. Ultimately you merge the manager into the vehicle just like Buffett did.

Interestingly we could see a lot more of such deals happening in Geneva by the way, than in Zurich, which is where I live, because again, Geneva is much more open to these kinds of new ideas.

Dr. Stéphane Graber

Coming back briefly to Geneva and revitalizing the local asset management industry here, I agree totally with what has been said. This has to be seen as a process. We had first to clarify the specific taxation of this type of activity. That was necessary before executing the next step, which is the development of a local pool of highly skilled people. We have very good advantages in that case: our excellent universities and research, the whole educational system and large offer in international private schools, our open economy and of course the lifestyle here, the quality of life. Geneva is already a desirable location for attracting and retaining key staff.

The taxation uncertainties will be solved in the next month with some fiscal guidelines to be edited by the Federal Tax Administration, and then we will focus on education to build a local talent pool. In that sense, we want to adopt a similar approach to what we used to reinforce Geneva as the first trading place in continental Europe. I am convinced that the search for high skilled people will become a major topic for the industry in the coming years.

Olivier d'Auriol

Can I ask you, I didn't understand exactly how can you give a fiscal advantage to people that come from London and not give this advantage to us around the table that are doing the same business?

Dr. Stéphane Graber

I think we have to be very careful on that, and that's also why we didn't want to develop a special regulation for hedge funds. We have an existing fiscal regulation in Switzerland that gives enough space, so that we can find a solution for everybody, but we are very careful to avoid discrepancies between people coming from abroad and locals. The aim is to ensure a fair treatment to all involved individuals.

We work very closely with the fiscal administration in order to find a win-win situation with the clients. I would say that in the end we will be competitive on the tax side comparing to other places and taxation would not be an obstacle for the development of such activities in Geneva. Our aim is to combine a good economical and fiscal environment with the other advantages that were mentioned: to be close to the clients, to have access to a good network, the transparency, the stability and security of the regulation and political environment as well as the good reputation of the Geneva Financial Place.

Mark Cecil

If you look at a business like ours, we do the investment management task in Switzerland, but there are also other parts of our business which don't go anywhere near Switzerland, for example all marketing is done outside of Switzerland. I also want to point out that I don't think people come to Switzerland because they want large fiscal advantages, but what they don't want is to come here to be disadvantaged vis-à-vis being in New York or London.

In our case we came to Switzerland in the hope that things would at least be as good as where we have been before and not worse, and I think these are the things that the Swiss Government groups are currently addressing. That gives us great hope for our longevity here.

Thomas Della Casa

Today we have heard a couple of critical comments on the state of the hedge fund industry, like liquidity issues and challenges for fund of funds. I am glad we are over this now, because I believe that the hedge fund industry in general is dealing much better with the current highly unfriendly environment than most other market participants. On the single hedge fund question in Switzerland I would add that we can be slightly optimistic. It is true that we lost a lot of the prop traders in the 1980s and 1990s. There was a lot of talent; but a lot of trading books were transferred from Zurich or Geneva to London and are now gone for good.

I think with the recent political and fiscal initiatives we can be shallowly positive and optimistic, but we should not expect a huge revitalization of this sector in Switzerland. That's just not possible, because talent is not an abundant commodity, it's scarce.

Another aspect is that there is currently a limit of seeding capital. I think we have to be aware that a lot of the new setups we have seen over the past three years are in difficulties. As a consequence it will be tough for new managers to come up with compelling ideas and get financing or seed capital. I would say that we will experience some selective growth. There will be some high profile setups, but I would not expect a huge rebound in that direction in Switzerland.

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Thomas Della Casa



Matthias Knab **But you do see, and Jabre Capital was an example of that, you do see actually whole operations relocating from other jurisdictions to Switzerland. They go either to Geneva or they go to the Pfäffikon/Zug area.**

Mark Cecil Let's not forget one advantage. A lot of the customer base is also based in Geneva or close to it, which makes everybody's life very easy. For a lot of our clients it is a 100 meter walk to come and see us.

Jean Keller I would love for you to be right, and I am a Swiss person who has spent 22 years trying to come back to Switzerland, and finding it very difficult, so I absolutely hope that you are correct.

I think that apart from your firm, which has been a very high profile setup, a lot of the firms that came here have done it as an alternative to London, because of the changes in the non-domestic resident taxation, but they have only set up a retreat post.

In other words, I don't think that apart from you we have seen a massive exodus of investment or operations people. We have seen some substance being created in Geneva, in Zug or in Zurich, but we have not yet seen something to the scale of Jabre or even a third of Jabre in terms of scale. I believe everyone from Geneva would love to help you and would love to contribute with ideas, time, resources, for this to happen.

Despite what had been said about the buildup of the reinsurance sector in Bermuda, one has to be very lucid to be seriously competing with a center like London, which has 35 years of talent, which draws on a population of over 15 million people etc. I think this is unrealistic for Geneva. Even if you include Lyon, you won't get past 1.5 million, and Lyon is in France; as the French remind us very rudely all the time. So I think that the scale has to be put in proportion, but don't get me wrong, I would love to support, and hopefully I am wrong.

Jean Keller



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Matthias Knab **If you look at some of the recent moves, there are hedge funds that move their whole operations, and some of them are substantial. In other news from today it was announced that Krom River, an $810 million hedge fund, has or is moving from London to Zug. I know also of another operation which is moving over this year. That operation will hit $1 billion in the next months, so it is happening and the momentum will continue.**

Dr. Stéphane Graber I agree with the view that things are happening and will continue to grow. After having worked on the taxation issue, where we also had to allow time to the Swiss Federal Government in Bern to express its position, we find more projects that have started or are on their way. Some of the solutions include a full transfer to Geneva and some just consist of a small office here. I can say that in Geneva, we have found solutions to accommodate these firms and their staff. Recently more than 40 hedge funds have started operations in Geneva, making it the first destination for hedge

funds in Switzerland. If we already do well with funds-of-funds, we expect to see more and more hedge funds managers to move to Geneva in the coming future. Geneva will also catch up in matter of private equity activity.

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I also want to point out that it is not our aim to override London. We want these activities to develop here; we want single managers to come here because we think that there will be an evolution in the traditional wealth management and private banking activity in the next 10 or 15 years. The new activities which we want to and have to bring to Geneva are complementary to what we have today. We are not aiming to bring all the hedge funds from London to Geneva, but to develop new know-how and to diversify and reinforce our financial industry.

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Olivier d'Auriol

I want to use this forum to also express a sort of wish list to the authorities. We had mentioned that the Swiss stamp duty had contributed to the downturn of the Swiss financial industry in the 80s and onwards, and I want to point out that the very same stamp duty is still there. Let's abandon that tax, that's my first on my wish list.

Secondly, a very important percentage of shares of Cayman hedge funds are held by Swiss banks for their client in Switzerland. I think it's about time that we try to set something up domestically. In Switzerland, the law on funds has been updated in 2007. I wish that the Swiss Federal Banking Commission facilitates and encourages the registration in Switzerland of hedge funds, funds of hedge funds, in particular the ones with European promoters, with the result that in a few years the majority of the hedge funds held by banks in Europe for their clients will be registered in Switzerland and not in a small island 5000 miles away.

Daniel Penseyres

The Swiss investment management industry needs to attract again and again the best skills available. I am old enough now to say that when I was a trader back in the 1980s, Geneva was running the largest centralized corporate treasury operations. Companies like DuPont, Motorola, Beckman Instruments, Caterpillar, Hewlett-Packard, Procter & Gamble, and Silicon Graphics had probably the best professionals in corporate risk managements. I have the impression that all this has disappeared few years ago.

I also remember that before the hedge funds became active in the markets, the greatest traders and corporate bankers were in Zurich, Geneva, and Basel. So, Geneva and Zurich have to revive themselves and advertise their benefits. It's amazing how much advertisement I have seen in southern parts of India for attracting students to the Swiss hotel schools. I feel something similar must be done for the financial industry in order to attract skilled staff and also make it easier for gathering both international talent and money in our country.

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