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Opalesque Round Table Series '12

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Editor's Note

Dear reader,
French hedge funds and the securities regulator AMF believe the Alternative Investment Fund Managers Directive (AIFMD) will - more than UCITS - boost investor confidence in hedge funds and pave the way for potentially significant asset growth. But further steps are required to fully gain back the trust from institutions.

Participants at Opalesque's third France Roundtable, held in April 2012 in Paris and sponsored by Lyxor Asset Management and Eurex, believe the AIFMD will have a major impact on the hedge fund industry in Europe. Some of the largest funds of funds, like Amundi Alternative Investments, have already **shifted their model from offshore to a 100% onshore, European regulated framework. This includes a re-domiciliation of most wrappers (i.e. the funds of hedge funds themselves) as well as their underlying fund structures to onshore jurisdictions. Amundi says the firm is already now fully ready for the arrival of the AIFMD**, and explains that this shift was mainly motivated by concerns from their French institutional clients.

Rothschild to announce fund acquisition, managed account partnership; FoF to revamp business strategies

Paris-based asset manager Rothschild & Cie Gestion announced the firm **will acquire a fund management company shortly as part of the group's new business strategy**. After the acquisition of Héritage Asset Management, this would be Rothschild's second deal in 2012. In addition, Rothschild has decided to **partner with a managed account provider** and will issue a RFP this summer.

Rothschild and Amundi are examples of European fund of funds groups that are gearing up for a new future through both growth strategies and improving their **core investment strategies by adopting dynamic portfolio management processes, proprietary models in turbulence (risk on and off detection), overlay hedges and better liquidity management.**

Fee factor crucial to regain allocators' trust

European investors believe that restructuring fees will be a core theme for the next years for hedge funds to regain trust and momentum with the allocator community. The 2/20 model is under huge pressure: "Similar to the iceberg concept, on the surface you see the 2/20 model, but what is happening underneath the water is very different." New fee arrangements include changes in fee levels and fee formula, as well as claw backs and deferrals.

French regulator warns Financial Stability Board's involvement in regulations may result in new concerns

Patrice Bergé-Vincent, head of the Asset Management Regulation Division at French securities regulator AMF, pointed out that over the next years the industry will come to a clearer distinction between UCITS and AIFM. UCITS products will be more directed to retail investors and AIFs will be reserved for the most sophisticated investors. However, he warned that the **increased focus and activities of the Financial Stability Board (FSB) around market regulations may soon turn into a new regulatory paradigm that could be a "new concern for the asset management industry going forward."**

Hear from:

1. **Marc Potter,** CFM
2. **Francois Bonnin,** John Locke Investments
3. **Sylvie Dehove,** Amundi Alternative Investments
4. **Patrice Bergé-Vincent,** Autorité des marchés financiers (AMF)
5. **Yves Coignard,** Volvar Asset Management
6. **Diego Fluxa,** Rothschild & Cie Gestion
7. **Paul Beck,** Eurex
8. **Nathanael Benzaken,** Lyxor

... background and facts about:

- **Will the banking disintermediation in Europe continue? What will be the consequences?**
- **The role of hedge funds and alternatives in Europe**
- **How to use the AIFMD as a trigger to develop a robust and buoyant alternative asset management industries**
- **Could the proliferation of UCITS have hurt the French market? The inherent risks of (some) UCITS funds**
- **The trend to on-exchange trading and clearing of OTC – Updates on EMIR and Eurex Clearing's latest products and initiatives**
- **Should commodity investments be allowed for UCITS funds?**
- **Why is Lyxor focusing on early stage managers?**

Matthias Knab
Director, Opalesque Ltd.
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Diego Fluxa, Francois Bonnin, Patrice Bergé-Vincent, Yves Coignard, Sylvie Dehove, Marc Potters, Nathanael Benzaken, Paul Beck

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Introduction

Paul Beck
Eurex Group

My name is Paul Beck. I am Head of the Paris office for Eurex Group and Deutsche Börse Group. I have been with the organizations for a total of ten years, in two periods. Prior to re-joining Eurex Group, I worked as Chief Operating Officer for a London-based fixed income market-maker. Eurex Exchange is one of the largest global derivatives exchanges with a product suite comprising 11 asset classes including some of the most liquid equity index and fixed income derivatives in the world providing diverse investment opportunities.

Marc Potters
Capital Fund Management

My name is Marc Potters. I am Co-CEO at Capital Fund Management in Paris. CFM is a quantitative hedge fund; I am heading the research team. CFM has two products at the moment: Stratus, a multi-strategy quantitative fund that is actually closed to new investment and Discus, a CTA futures and FX program which is still open to new investment.

Sylvie Dehove
Amundi Alternative Investments

My name is Sylvie Dehove, I am the Deputy Chief Investment Officer of Amundi Alternative Investments. Amundi Alternative Investments is the alternative branch of Amundi, the second largest asset manager in Europe with $ 852 Billion in AuM.

We are regulated by the Autorité des Marchés Financiers (AMF), and provide bespoke investment solutions through funds of hedge funds management and advisory to institutional clients (public authority and pension funds) since 1992.

Our expertise is based on a dynamic portfolio management process and a 20 year relationship with the highest caliber hedge fund managers. We currently manage nearly $12 Billion in alternative investments including a managed account platform in Ireland and Bermuda, that totals $2.5 Billion with a staff of 100 employees' worldwide.

Given recent regulatory trends, we see an increasing push in Europe with AIFM regulation, and our main strategy on investments are in line with AIFMD which I believe will have a major impact on the hedge fund industry in Europe. But, this will be one of the discussion points we will have at this Roundtable.

Nathanael Benzaken
Lyxor

My name is Nathanael Benzaken. I am responsible for the managed account platform development at Lyxor. I have been with the firm for 11 years. The firm is managing over $100 billion of assets, $22 billion of which are in hedge funds. About $11 billion are on our managed account platform. Our platform offers access to hedge funds in a fully segregated, more transparent, and more liquid framework. Alongside our commingled managed account platform we operate dedicated managed account platforms for large institutional investors on a global basis.

Yves Coignard
Volvar Asset Management

My name is Yves Coignard. I am the Chief Investment Officer and co-founder of Volvar Asset Management, an independent company, specializing in systematic absolute return volatility strategies. We are seeded by IMQubator, funded itself by the Dutch pension fund APG and are about to launch Volvar Eurozone volatility in the next few days.

Patrice Bergé-Vincent
AMF

My name is Patrice Bergé-Vincent. I am the Head of the Asset Management Regulation Policy Division within the AMF. As such, I am involved in elaboration and adoption of regulations that are applicable to asset management in France, which involves working at both at both European and international level.

Francois Bonnin
John Locke Investments

My name is Francois Bonnin. I am the founder and CEO of John Locke Investments, an alternative asset management firm based in France. We manage a little under $500 million. We are a systematic, quantitative asset management firm servicing mostly institutional clients outside France.

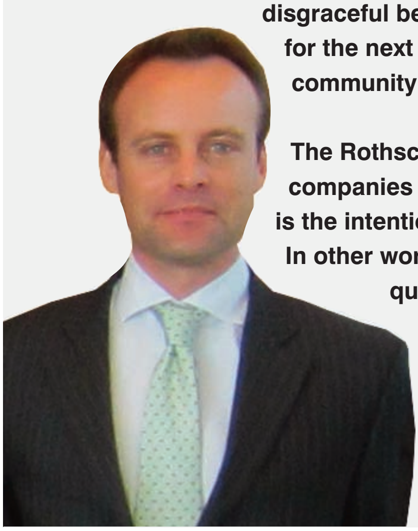
Diego Fluxa
Rothschild & Cie Gestion

I am Diego Fluxa. I am with Rothschild & Cie Gestion where I head the alternative investment business in Paris. The group started investing into hedge funds some 30 years ago. At the beginning we were serving high net-worth private investors. Gradually, we started to do more business with institutions. At the moment we are working on a new business model to address the needs for the coming years.

Matthias Knab **Diego, you said Rothschild & Cie Gestion is working on a new business model. Can you specify the changes in the business model, and maybe also explain what are some of the drivers for those changes?**

Diego Fluxa: Rothschild & Cie Gestion's new business model is not totally fixed, we are still discussing the details. I believe you can say that we started out with the basic observation that to a certain extent the classic fund of fund business model is broken, at least in France or in continental Europe. So is the single manager business by many ways – the issues are obvious.

First, hedge fund investors face performance and correlation disappointment across the board, which are the major drivers of our reflection. The second aspect lies with regulation, and beyond those two issues you are looking at factors like transparency and fees. Fees have to be better aligned between the different bodies. Considering the disgraceful behavior of some hedge funds in the 2008 crisis, the fee factor is going to be crucial for the next years if the community wants to gain back a bit of momentum with the allocator community in our view.



The Rothschild Group has been looking for organic growth and we have also audited many companies in order to take stakes. We did a small acquisition at the beginning of the year, and it is the intention of the group to keep moving and probably purchase another group pretty shortly. In other words, we will be part of a macro trend to consolidate assets. More than that, the bigger question we are asking is how will you revamp your business tomorrow? Our industry has evolved, it is not only about selling products to investors, but also selling the servicing and solutions. Consequently, we are building up a new entity Rothschild Investment Solutions which will use our extensive hedge fund expertise to address client needs.

Diego Fluxa

Francois Bonnin I just was reading that hedge funds reached a new high in AUM at two trillion or around that number? What is your comment on this? You think the industry has to realign fees and that there is a lack of performance, but yet it is growing.

Diego Fluxa Yes, that is correct. In fact, I was speaking from an European perspective, but sure, hedge funds have been very successful in the U.S. and other parts of the world where pensions have started to allocate to hedge funds. In Asia for example, pensions as well as private banks put money into hedge funds, whereas according to our analysis, institutions in continental Europe, with the exception of the Netherlands and probably the German speaking part of Switzerland, are very critical of hedge funds.

Francois Bonnin: When people refer to the bad performance of hedge funds, we can't really lose sight of the fact that since 2000 traditional asset classes such as stocks are still largely underperforming hedge funds. Bond investors suffer from the same story and may be exposed to a lot of risk also with the potential failure of many issuers both government and private. I do recognize the 2008 debacle within hedge funds to be an immense disappointment, but on a relative basis Hedge funds still greatly outperformed stocks in 2008.

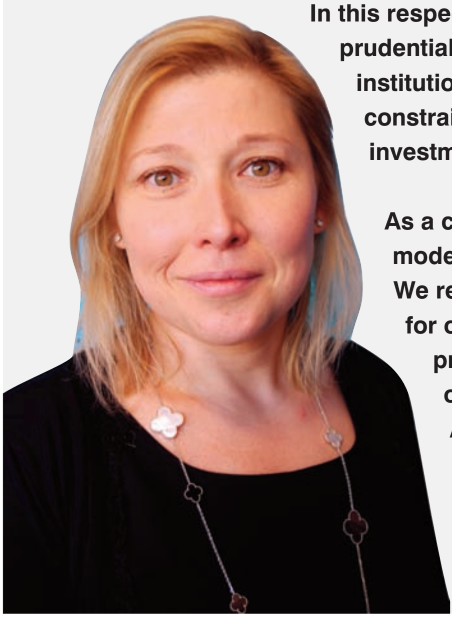
Francois Bonnin

Sylvie Dehove: **Well, I do not share François' point of view. Over the past four years I believe hedge funds, and funds of hedge funds, have missed delivering performances compared to bonds. While the HFR FoF Composite posted -12%, and HFRX Global Hedge fund -17% since 2008, Global Bonds (measured by JPM index) posted +29%. That was the main criticism from our institutional clients, especially French ones.**

Those investors expected their alternative allocation to deliver performance when everything else did not work, i.e. displaying a low correlation compared to equity markets, and I felt we missed this point. Of course we all had to deal with pretty difficult markets in 2008 and in 2011, which is one part of the problem. However, the fund of hedge funds' world wasn't fully ready to face these kinds of tail risks or volatility levels. For instance, we were not well equipped in terms of overlay hedges, and we were not liquid enough in 2008 in order to quickly react and change strategic allocations.

This is a point that I believe has been addressed at Amundi Alternative Investments through a dynamic portfolio management process, and proprietary models in turbulence/risk on&off detection.

To get back to the initial question, I don't think that French institutions in particular are big backers or fans of hedge funds. In general, I believe we need to demystify hedge funds. We need to explain exactly where the performance is coming from, to discuss liquidity and transparency, especially in the regulated environment.... in a word, gain confidence.



In this respect, I actually think that AIFM is a good answer. I do believe that the arrival of new prudential directives may help boost alternative offers by waiving political constraints some institutional investors had. More than UCITS to my point of view, because there are fewer constraints in terms of risk, leverage or shorts, which are important tools for alternative investment managers to run their strategies.

As a consequence, Amundi Alternative Investments has decided to shift its business model from offshore to 100% onshore investments in a regulated European framework. We re-domiciled most of our wrappers, i.e. funds of hedge funds themselves, and even for our underlying funds we invest directly into, we use onshore funds, including proprietary managed accounts and dedicated funds, which are regulated in Ireland or Luxembourg. We made a strategic move over the past two years to become AIFM-ready and give access to a solution driven approach (strict ALM, leverage) and offer attractive investment opportunities to this type of clients. We addressed concerns that we heard from our French institutional clients.

Sylvie Dehove

Diego Fluxa Compared to international institutions, French domestic investors are more biased to bonds. For example, insurance groups had over 80% allocated bonds and credit, which is not the case with U.S. or Japanese institutions. Most of U.S. or Japanese institutions have 30-50% in equities. On a relative basis, these institutions will have appreciated the performance of hedge funds, but French institutions are very happy with the bond portfolio over the past years. I am not saying that bonds' performance is replicable going forward, but it is important to accurately understand the reality of French institutional investors.

Nathanael Benzaken: **Although we are a large French asset manager, most of our assets are international. Diego's comment on the French institutions' position is correct, however going forward, I believe that bond investors are in a sort of dilemma. If you project the current situation forward, the return expectations are rather low, and holding bonds may potentially result in greater risks as there is an asymmetry between the potential upside (can interest rates go really lower?) and the potential downside (interest rates going up, for instance if inflation comes back?).**

Many international investors see it that way. When we talk to Dutch, U.K., Canadian, Japanese or U.S. pension funds, they are in a mode to increase the allocation to hedge funds, because this is one of the few responses to get better visibility regarding expected return, expected volatility and lower correlation to traditional assets classes.

Again, to my knowledge and hopefully you agree with that, outside of alternative investments there are few options to optimize portfolios and help create some sort of decorrelation with long equity and long bond portfolios. But the cynicism of the situation is that despite the fact more and more investors are interested in hedge funds and alternative investment generally as a diversifier and performance amplifier, they are concerned by implied costs and operational/reputational risks.

I believe we are potentially at the dawn of a wave of new assets coming from institutional investors into hedge funds, which will help complete the institutionalization process of the industry started in 2009. This is something that has been in the air for a long time and will happen eventually. But the traditional fee structure may have to evolve too.

We have plenty of evidence that the so-called 2%/20% model is under pressure. Effectively, the actual average fee as reported by independent consultants is already in the region of 1.7%/18%. The process has already started. The full extent of what is happening is not necessarily visible, similar to the iceberg concept. What you see on top of the surface is the 2%/20% model but what is happening underneath the water is very different. Reworking fee arrangements is clearly the way forward and will be part of the adaptations the industry will have to make to be able to attract those new assets.

Fee levels and percentages are only one aspect here, because we also expect to see a change in the fee formula. The standard model of an annual fee payment with a high watermark has come under pressure as well.

A trend may develop toward claw backs, or deferrals, similar to what has been put in place for traders in investment banks. Again, the full extent of what is happening is not visible yet, but this is something that is slowly developing.

Nathanael Benzaken

Matthias Knab **I am aware that this fee discussion has been going on for a number of years now. Can you give us more details or more evidence about what is happening? What do the new fee models that are being implemented now look like?**

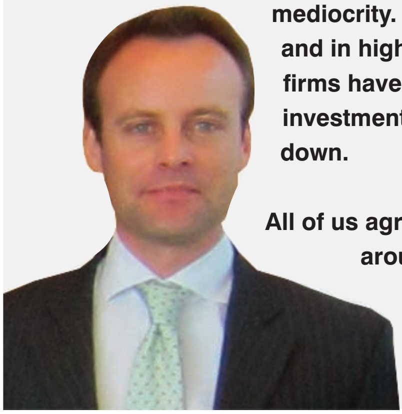
Nathanael Benzaken Let me point again to the iceberg metaphor I mentioned - the average, visible hedge fund fees are still 2/20 with a high watermark. However, large investors are increasingly negotiating private deals.

There are also "lobbyists" that have started to be fairly vocal on the institutional side to push fees down and work towards a reform of fees, particularly in the U.S.

Bear in mind that the industry was at USD 2 trillion already pre-crisis. Based on recent numbers we are just now back to the historical highs after the large redemption wave post 2008. If the industry wants to move from 2 trillion to 4 trillion or more, it needs to adapt somehow to the new investor paradigm.

Sylvie Dehove I do agree with Nathanael, we see the same trend. A different type or group of investors are moving into alternative investments, and embedded fees are an issue for them as the industry failed to deliver double digit returns, like it did in the past.

Diego Fluxa: Also, bear in mind that the current low-yield environment makes it absolutely unbearable for investors to pay 2/20, because the split between investors and the asset manager has changed dramatically. Historically, when managers were shooting for 15% net to investors, they were putting 6%, or 7% in their pocket and thus the split was ¼ versus ¾ - three quarters for investors, one quarter for the asset manager. Now, they are still charging 2/20, but if you deliver net 5, 6 or 7% this results in almost a 40:60 split, and that makes it just unbearable for a lot of investors. That is one issue.



The second problem is related to the growth of the hedge industry which has opened up to a lot of mediocrity. Of course, there will always be good hedge fund managers, but they are low in supply and in high demand. These firms are still able to charge 2/20 or even 3/30. I am not saying these firms have to change anything – like transparency for instance - but have in mind that a rule of investment life is the more players you have, the lower the average. All in all, fees have to go down.

All of us agree on the benefit of hedge funds and alternatives and that demand will be growing around the world, however for us here in France and certainly other countries in Europe, the challenge remains to attract more assets from our domestic markets.

Diego Fluxa

Sylvie Dehove

On the other hand, as we pointed out, French institutions have of course the bulk of their assets in the traditional markets, where you can invest large amounts of money at really low fees. The fee model for active investments will have to find a new balance in between the current hedge fund fees and what investors are used to paying for absolute return strategies.

Francois Bonnin

When talking about hedge fund fees, I believe it is important that we look at the full picture. I have already pointed out the returns of traditional asset management since 2000.
I also wonder what the average fee in traditional asset management is at the moment? And lastly, what should the right hedge fund fees be?

Let me quote a recent study by the Center Hedge Fund Research at Imperial College in London:

***"Using HFR (Hedge fund Research) hedge fund index data from 1994 to 2011, our performance analysis shows that hedge funds have significantly outperformed equities, bonds and commodities on a risk adjusted basis.
Hedge funds achieved an average return of 9.07 percent in the period 1994-2011 after fees compared to 7.18 percent for stocks, 6.25 percent for bonds and 7.27 percent for commodities.
Hedge funds achieved these returns with considerably lower volatility and Value-at-Risk (VAR) than stocks and commodities, close to bonds in both categories. The research also demonstrated that hedge funds were significant generators of "alpha", creating an average of 4.19 percent per year from 1994-2011".***

The study latter concludes: ***"the monthly return after fees of a Hedge fund is there in order to continue to achieve such a return".***

It is important for hedge fund managers to attract top qualified researchers and portfolio managers and this doesn't come for free.

Francois Bonnin

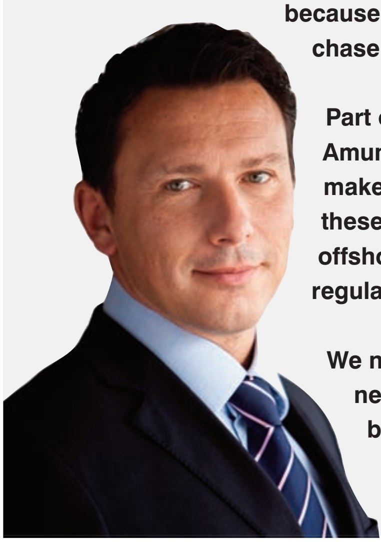
Sylvie Dehove

I tend to agree on the fact that we actually have to review our fee structure as we deliver single digit performance only. Institutional clients require more equilibrium on the fee breakdown between the manager and the client.

Nathanael Benzaken: **As I mentioned earlier, while we all refer to hedge fund fees as the 2%/20% model, the average hedge fund fee actually is 1.7%/18%.**

Probably both fees have to go lower somehow. Traditional asset managers only charge a management fee. However, I believe the incentive fee serves a good purpose, because of the better alignment of interests.

The procedures of the fee calculations and definition of periods around fee payments may change as well. Just having an annual fee payment is not enough, and so in my view the real evolution is the introduction of deferral and claw backs i.e. anything that contributes to a longer-term alignment of interests with the investors. This is important because the very nature of institutional investors is that they invest in the long term, they don't chase performance on a monthly basis.



Part of our mission at Lyxor is to educate the market, which can be a challenge at times. Like Amundi, we support the AIFMD and believe this transition towards new regulation will help make hedge funds more respectable for French and European onshore investors. Many of these investors are fully supportive of the move from what they sometimes perceive as offshore, tax haven or non-transparent "black box" investing towards onshore and more regulated investments.

We nourish the hope that the AIFMD acts as a catalyst for those large investors who have never touched hedge funds before because of their offshore unregulated nature to –at last- build an allocation to hedge funds.

Nathanael Benzaken

Yves Coignard

I concur with Francois' question and in my opinion we shouldn't look at average fee numbers. One of the ways the industry has answered the pressure on fees coming from investors new to the industry is through the development of a new type of "mass" fund, having a simplified investment approach, such as Exchange Traded Products for instance. So, in my opinion, part of the global trend towards lower fees comes from this fast growing area. In that perspective, the skill to fee ratio remains much more stable.

Matthias Knab

I am curious to hear more views or projections how AIFMD will affect the alternative investment industry?

Patrice Bergé-Vincent

Let me start with a historical perspective. At the beginning of 2009, in the aftermath of the financial turmoil, the G20 leaders decided that all products and entities on financial markets should be regulated. They recommended hedge funds or their managers to be registered and supervised, because they were previously seen as unregulated. This recommendation was implemented in Europe from May 2009, with the European Commission proposal for the alternative investment fund managers directive (AIFMD).

Patrice Bergé-Vincent: **AIFMD never intended to regulate the investment strategies a hedge fund can deploy. Hedge funds need flexibility regarding their investment strategy, that is negotiated and documented in private agreements between investors and the fund manager. What AIFMD is focusing on is an obligation to register the manager/AIFM with a national regulator; provide more transparency, and more reporting to the regulator and investors; along with some supervision from the regulator.**

Nathanael is right: once AIFMD is implemented, hedge funds and hedge fund managers would be able to build on the fact they are now regulated and, hence, provide "respectable" investment options for sophisticated investors. I also

believe that from a macro perspective, hedge funds as capital allocators can help to address and contribute to solve some of the many challenges that we face in Europe with the real economy.

In particular, hedge funds and other alternative investment funds, such as private equity or real estate, can play a constructive role by addressing two challenges that I believe are related. The first one is the banking disintermediation that will happen to a certain extent in the next years as a consequence of the stricter prudential regulation resulting in higher capital requirements on banks, insurance companies and certain institutional investors. A market-based economy needs robust channels for the capital flows from savings towards investments in risky projects. Financial markets, including asset managers, private equity, real estate but also hedge funds have a big role to play there in the coming years.

The second challenge is that Europe needs recovery and growth. We need financing of the economy. A market-based economy needs entrepreneurs who pursue risky projects for more growth and job creation. Hedge funds, together with other capital allocators, can play a role by taking on the risks of financing such kinds of projects on a long-term basis.

In U.S., there are also new regulations affecting alternative investment funds. The Dodd-Frank Act brings similar registration, reporting and supervision requirements for hedge funds and private equity funds. It also brings better regulation of OTC derivatives as EMIR and forthcoming MiFID II do in Europe. These new regulations will have to be implemented effectively.

Patrice Bergé-Vincent

In France, we are now at the stage of implementing the Directive. The implementation of AIFMD is an important challenge. We are aiming to make the AIFMD provisions workable on a daily basis for the industry and for the regulator. We would like also to use this opportunity to streamline our regulation so that the positive role that alternative asset management can play for the economy is fostered.

The point is to achieve the objectives of regulation and to contribute to more transparency, more scrutiny and more financial stability to help us avoid another larger scale financial crisis like we saw in 2008 and 2011.

Nathanael Benzaken

As we all know, all investment banks are shrinking their proprietary trading activities and some are making some of their traders redundant. Therefore, at the moment, there are plenty of qualified traders out there searching for a new home or a new business. Does France and the French regulator have ambitions to capitalize on that and maybe make Paris or France a new hedge fund center?

Patrice Bergé-Vincent

We are currently reflecting on what kind of orientations we should adopt when implementing the AIFM directive into national legislation and regulation.

Patrice Bergé-Vincent: We are looking at how we could effectively use AIFMD not only as a way to improve alternative asset management supervision, but also as a trigger for the financial industry in Paris to develop a robust and buoyant alternative asset management segment. AIFMD offers different kinds of passports: the management company passport, the product passport, and even a non-European passport as well.

We see these passports as opportunities for French managers to stay established here and for overseas AIFMs to consider establishing themselves here and work under a robust and smart regulation. It will be an advantage for the asset managers and the growth of their business to point out that they are very well supervised by a smart regulator.

We also aim to make Paris more attractive for the domiciliation of funds. Our desire is to have a balance between attractiveness for the asset managers and for the funds themselves. With AIFMD about to be implemented, we can take the next steps and also participate in the trend towards "onshorisation" of fund products as France is getting an attractive fund domicile.

With UCITS and AIFM we have now two pieces of legislation which cover the collective asset management sector in Europe. Probably over the next years, we will come to a clearer distinction between the two types of investment funds, where UCITS which would be products directed to retail investors and AIFs products reserved to the most sophisticated investors. That means UCITS include a heavier regulation together with some investment restrictions as the product is offered to retail investors, whereas many AIFs would have less, or even no, investment restrictions as their managers are supervised, required to be more transparent and must appoint a depository. While bringing more security into the system, AIFMD allows also for a lot of flexibility. In general there is no intervention from the regulator into the relationship between the manager and the qualified/professional investors, except the transparency requirements.

This distinction between UCITS and AIFM could allow even more flexibility on the AIFM side, because the first mission of the security markets regulator is to protect the retail investors. When regulators are comfortable that only qualified or professional investors are at stake with certain products or services, the regulator can be much more flexible.

Patrice Bergé-Vincent

Matthias Knab Yves, you and your colleagues have set up your fund management company just recently in France. Why did you do this here, and what has been your experience?

Yves Coignard: Even though all of the company's founders have spent part of their professional life in the Anglo-Saxon world, we all agreed the quality of life here in France was a real plus. Furthermore, we know the French regulation very well and appreciate its transparency and diligence. It is also cheaper to set up an asset management company here than in most other regulations.

However, we are launching a Luxembourg fund mainly because from the foreign clients' point of view there are too many grey zones around French funds. Clients are not familiar with the different fund structures available in France and are also concerned by tax issues, especially in comparison to the usual suspects - Luxembourg and Irish funds. There is also a language issue. Francois told me that he launched one of the first funds in France having its memorandum in English. Up until now, you were supposed to write your prospectus in French only. The whole framework is perceived as French investors-only oriented.

Therefore from our perspective, the first step for Paris to increase its audience is to reduce the number of different vehicles available to hedge funds, communicate around it and clarify the advantages to having a French structure. In a way, the regulator should undergo the same transformation as the industry, aiming for more transparency and clarity.

Yves Coignard

When it comes to the French domestic investors, I believe that at some point the industry here took the wrong turn. I do think that UCITS in fact hurt the French market. Perhaps more than in other countries, the French financial institutions started to believe UCITS products are the shield against wrong decision making. Hiding behind UCITS closed the door for truly alternative investments, while at the same time it helped the creation and proliferation of hedge funds misusing the regulation.

In my point of view, there is substantial risk in UCITS hedge funds. One of the issues for example could be liquidity. While it could be easy to compute a (theoretical) NAV, it does not mean all of the investors could be executed at that NAV should they want to. With UCITS hedge funds, investors may at the end take risks they are not really aware of.

AIFM will in that perspective give a much clearer framework within which the industry will have the opportunity to straighten up the lines and position the different funds either as retail or as hedge funds.

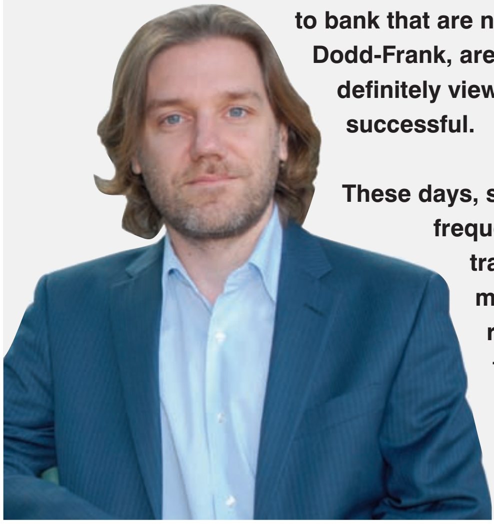
Marc Potters: As the manager of a large hedge fund based in France we are positive to sensible regulation and to the AIFMD. Most of the AIFMD in fact is in line with the ongoing institutionalization of our industry. Our clients are getting larger, we are now directly dealing with large pension funds, sovereign wealth funds, and so on. These people do want to see more transparency, they want to see rules and regulations in place. The vast majority of the managers are already regulated and a lot of the regulations we are facing at the moment go anyway in the direction that the industry has already been taking.

We hope that the implementation of AIFMD will be done in coordination with the industry so that it ends up not being a huge burden for the firms. There are a few things in the current versions of the directive that we do not like which we would hope could be corrected in the final implementation.

For example, we do find that the idea of a single custodian/depository is a problem for us. As a large hedge fund, we want to be able to have multiple custodians holding trust assets because that saved us for instance in the Lehman crisis. We were prime broking with Lehman Brothers, but also with two others and because of that we could quickly move our assets to other prime brokers. This is an area of the regulation that we do not quite agree with and suggested changes on, but overall we are definitely in favor of the general spirit of it like providing systemic risk transparency to regulators and unifying the procedures for distributing EU and non-EU alternative funds within the Union.

There is another aspect of regulation I want to talk about, the regulations of markets through new frameworks like Dodd-Frank for instance. We agree with this regulation because we are highly in favor of creating more transparency on the market. We are in favor of liquid markets and that financial instruments have a price, particularly within OTC trading. I don't want to criticize the banks here, but I believe there are a lot of dealings from bank to bank that are not as transparent as they should be. A lot of the new regulations, especially Dodd-Frank, are pushing the industry towards on-exchange trading, and that is something we definitely view as a big plus and wish the initiatives in Europe like EMIR will be as successful.

These days, some people are voicing concerns about the extent and impact of high frequency trading. We believe there are easy ways for exchanges to slow down the trading without having to revert to dark pools of liquidity. I do not like those markets, particularly because they are dark; we do not really know what the rules are and how you can be sure that in the dark alley somebody isn't going to try to game the rules. In my opinion, the rules are much clearer on an organized market.



Marc Potters

A few words about running a hedge fund out of France. We have been based here for 20 years now, and although our clients are global and we trade worldwide markets, 90% of our employees are based in Paris. What we really enjoy here is the quality of the manpower, especially in IT staff. All our IT staff is French, we find the quality of the people we can hire here is very high.

On the research side about half of our staff is French and the other half is typically European. We have some non-European researchers but the truth is that with the European Community local individuals can quite easily take up work here. We have extremely good schools and universities all around Europe, and as Paris is a place with a very high quality of life that is appreciated and desired by a lot of people and they are willing to move here for an interesting job in an interesting place. We believe we do in fact enjoy a big advantage of being based in Paris.

Matthias Knab **Paul, from an exchange perspective, what roles does France have for Eurex? What are some of the developments here you can comment on from your perspective?**

Paul Beck: France is a very important market for Eurex Group and Deutsche Börse Group. In fact being based here, I sometimes think the role of France in finance may be a little bit underestimated.

For our businesses, London is obviously the main European market with the biggest market share, followed in second place already by Paris. So for us, Paris is just as important, if not more, than some of the other financial centers in continental Europe. About 10 percent of Eurex Exchange's volumes are generated out of France, on the cash market that figure is even higher. The business is not only generated by the French banks, which are among some of the largest in Europe, but also from a good number of institutional investors and CTAs, some of them being present at this Roundtable. There is also a large community of brokers, so all in all we have a very well diversified membership base in this country.

However, I feel that France has even more potential when it comes to global finance. Just look at all the French traders that work in London, the options or volatility traders, risk management experts, structured products specialists etc. They are very often French, not just within the French banks but also within many Anglo-Saxon banks.

I also wanted to pick up on one of the subjects mentioned by Marc and his wish to see more products traded on-exchange versus OTC. The regulation is currently being implemented through EMIR and Eurex Clearing is soon to extend its EurexOTC service offering. The idea is to have interest rates swaps, total return swaps, variance swaps and so forth centrally cleared and to offer cross margining offsets between listed and OTC products. But already today, you can trade OTC blocks for listed products and use as well our EurexOTC Flex functionality to centrally clear those trades with Eurex Clearing.

Paul Beck

A good example of an existing market that was purely OTC and has moved to a centrally cleared and regulated market is dividend swaps. It has only been around for the last ten or twelve years, but over the last two to three years trading has mostly gone on-exchange, where the product is available to a larger customer base. The market as a whole has clearly benefited from it and developed very positively.

Francois Bonnin If you will allow, let me add a few comments and questions for Patrice. I agree that France is a wonderful terrain for IT people and engineers, and indeed plenty of these qualified French are working in other institutions outside of France. I hope France can do something to attract them back to their mother country because they didn't leave it for no reason. Sure, regulation might be one issue here, prescriptive EU regulation may cause issues for many alternative asset managers but there are also many advantages to having these structures in place. When I speak to entrepreneurs, they mostly complain about the social and fiscal costs of operating a business in France.

I also think it is important to point out that asset management in itself is undergoing a huge turn. From the 1980s to the year 2000, everybody enjoyed the big rally of equities. Investing was an easy game for everyone; you just had to be long. From 2000 to 2012, we experienced very volatile equitiy markets with no return at all for those 12 years. Bonds had little yield and displayed large issuer risk.

Systematic asset managers, thanks to their engineers and portfolio managers who spent a lot of time researching new avenues to generate Alpha, delivered strong performance during those years. From 1980 to 2000 the performance of Systematic Asset Managers displayed a nice upward slope, and also after 2000, unlike equities, systematic asset managers have delivered strong positive performance overall. In France, we have all we need to build a good systematic asset management industry.
Therefore, France should encourage employment and incentivize this growth industry, rather than allow the benefits to drift elsewhere.

Regarding regulation, we have to keep in mind what is going on globally. Huge shifts are occurring in the global economy. With China's economic boom came the rise of commodities. Sometimes you hear in Europe or in France that speculators were behind the commodities boom and that they were starving the Third World.

The truth is, if you remove China from the equation, all commodities will go back to where they were – if China (and to a lesser degree India) stops buying oil, its price could go back to $10. What I am getting at is that I doubt the rationale for prohibiting the inclusion of commodities in UCITS funds. In fact, I think we are depriving retail investors from hedging against further price rises of commodities by prohibiting the inclusion of commodities into UCITS. This is not actually in the interest of the retail investor.

Francois Bonnin

Patrice Bergé-Vincent

I am not going to answer all your many questions, but I can focus on two main elements I see in these many questions.

Firstly, let's speak about what we are doing to strengthen Paris as an international financial center. Yes, in the context of AIFMD implementation in France, we do work with the French tax administration. In particular, asset management stakeholders request more clarity and predictability regarding taxation.

We do work with other regulators at two levels. On the one hand, at European level. AIFMD is going to be implemented in 27 Member States and each Member State is trying to create benefits for their domestic industry in respect of the opportunities that come with AIFMD.

This new regulation may result in increased competition between the national industries within and outside Europe, which is good for end investors. AIFMD will also bring more harmony between Member States regulation as the European Commission is putting forward legislation in the form of regulations that are directly applicable instead of directives. As regulations will not be "translated" into national regimes there is much less room for interpretation. In addition, all pieces of legislation at European level are now flanked with very detailed implementation measures. Hence, there should be more harmony between the different national regulations.

Historically, some Member States have developed in Europe as centers for investment fund domiciliation, while others were more focused on asset managers domiciliation. We believe that the harmony brought by AIFMD may change this. We can see that fund domiciliation centers are trying to retain products and attract asset managers. We may see some revamping of the domiciliation of managers and products in Europe in the coming years.

On the other hand, we also work with other securities and also prudential regulators at a global level. The Financial Stability Board (FSB) has started to work specifically on its main objective, which is financial stability. This may turn shortly into a new paradigm of the regulation of securities markets and asset management in particular and may be a new concern for the asset management industry going forward. The idea here is to introduce the notion of financial stability into the different sets of regulations we have: the regulation of markets, the regulation of banks, and the regulation of the insurance companies.

As securities market regulators, we have to explain the specificities of asset management, even though they seem basic or obvious for us. For example, we have to explain that asset management is not regulated like banking universe, because the two are different, even though there might be a blurring borderline between them regarding some techniques or products. Therefore, the next challenge for us is to find the right approach to achieve financial stability within a framework that will not be detrimental for asset management or, more broadly, securities markets as these have a role to play in recovery and economy financing.

Secondly, when it comes to the question of qualified investors, I do agree that we all would be very much comfortable if we could have a very clear, precise and detailed definition that is not circumvented (excludes retail investors). It is sometimes difficult to draw the borderline between the two kinds of investors.

When I say that the regulator's first mission is to protect retail investors, I mean that we aim to protect "average" investors that are less aware of the risks, characteristics and costs of the products. As regulators, we have to first protect those investors. That is why we could only consider including commodities into UCITS if you could assure us that, as a manager, as a producer or as a distributor, you would be able to explain clearly to any average investor what the risks are and assure us that this investor can understand what you are explaining. Otherwise, if you cannot clearly explain these risks and you are not sure that average investors understand them, you should not propose this kind of products to retail or average investors. You should reserve these products to qualified investors, which are better equipped to understand the risk.

Patrice Bergé-Vincent

Francois Bonnin

I am not sure I agree that commodities risks are particularly difficult to explain, in fact, it seems to me that commodities are simpler to understand than a company. For example, today we see many instances where the share price of a company has plummeted following an ethical or control issue. These influences over equity share prices are accepted by all types of investors with little or no explanation. Whereas, the decrease in the price of wheat due to excess production can be easily explained.

Patrice Bergé-Vincent

Many regulators and policy-makers do not share this view. That is why direct investments into commodities are prohibited for UCITS, whereas there are no such restrictions with AIFs reserved to qualified investors.

Furthermore, there will be a clearer distinction between UCITS and AIF in the coming years. Therefore, I am not sure whether making UCITS more flexible is the right debate now that we have AIFM. The question could have perhaps been relevant before AIFM but, to me, it seems much less relevant now.

Matthias Knab

Who of you is working on launching new products?

Paul Beck: Probably many people have heard by now about the new Euro-OAT Futures launched on April 16. There has been a lot of media coverage about the product in the past few days but it simply offers an effective hedging instrument on the European bond market in addition to the Euro-Bund and the Italian BTP.

What we have done in the last few years is to create a natural extension of the existing successful products such as the Euro-Bund, Euro-Bobl, Euro-Schatz or the EURO STOXX 50® Index Futures. On the fixed income side we launched a 30-year futures contract, the Euro-Buxl® and the Euro-BTP Futures two years ago. On the equity side, the sector index futures and options have doubled in volume this year, having grown already strongly last year. Other recently launched products are the EURO STOXX 50® Index Dividend Futures and Single Stock Dividend Futures. These are all new initiatives and new ideas that have enjoyed a positive market response, and in fact are very often initiated by our members.

Paul Beck: Maybe the last one to mention is volatility, which has been in everyone's mind since the crisis. There is now a product with which you can hedge yourself against rising volatility: VSTOXX® Futures and Options. These types of hedging tools are already quite actively used in the U.S. and slowly but surely start to be utilized in Europe as well.

Marc Potters: One of the recent developments at CFM is that our flagship fund – Stratus - has now reached capacity and therefore we closed it to new investments. We still have some capacity in our short-medium term CTA called Discus, but that product also has limited capacity. If the take-up by investors is good, we might probably close it as well towards the end of this year.

One area we are exploring very actively is running a long-only quantitative strategy. We think that there is demand from institutional players to apply quantitative strategies but in a more traditional model, meaning long-only and no leverage. We are working on this product and hope to launch it with a partner at some point. We have other ideas, but those are too far in the future. Overall, we are committed to continue growing our firm and innovate in order to serve the institutional investor.

Sylvie Dehove

Most of the products we are working on or launching are funds of hedge funds with a high level of embedded liquidity and still a strong appetite/allocation to Directional Strategies (i.e. Global Macro and Systematic Trading Strategies) in those current macroeconomic uncertainties

We still think that the volatility may remain persistent over the year at medium levels, and that leads to less than ideal performance. In this context, we are working with our Quantitative Research Team to widen and improve our tail hedge investment solutions and develop a customized alpha-generation type of volatility products for our investments.

Sylvie Dehove

Nathanael Benzaken

We have two strategic initiatives at the moment at Lyxor. The first one is around the concept of increasing access to transparency, for which we find a very strong demand from institutional investors, and the second one will center on early stage managers.

There is a double challenge: getting managers comfortable (and we have got a very positive feedback), as well as having the technology to be able to deliver this enhanced transparence in an efficient, manageable and secured way to investors, both at each managed account level as well a portfolio of managed accounts. This is our first development.

Nathanael Benzaken: The recent growth of AuM in the industry was essentially the result of a "flight-to-size". But it is generally accepted that size is the enemy of performance in the long run. Therefore we do think that now is probably the right time to re-consider so-called early stage managers or "challengers". We will use our managed account platform to leverage on this opportunity in a controlled and secure way. This is our second development.

Yves Coignard

We are about to launch our long-short Eurozone equity volatility product, which is a systematic long-short volatility fund. We have clear expectations – the fund aims to deliver regular returns in standard market conditions, extra returns in times of crisis and slightly negative returns in times of equity markets recovery. We believe that our edge lies essentially in scenario-based risk management.

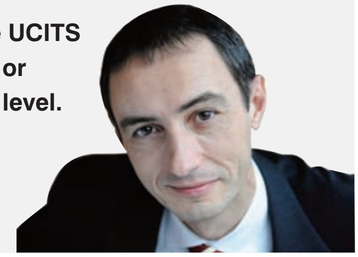
Going forward, clients' focus should be much more on ex-ante robust downside risk control as the last crisis highlighted their limited tolerance to the draw-downs associated with their usual volatility targets. In that context, convexity is crucial and we believe our fund directly addresses that concern.

Patrice Bergé-Vincent

As regulator, we are not launching new products but there will be new regulations or regulatory reforms coming shortly. We will have the implementation of AIFMD in France with a consultation report on the policy orientations for end of May and, as from June/July the translation of the AIFMD legislative package (level 1 and implementing measures as well as ESMA's guidelines and standards) into national legislation and regulation.

Then, at this end of April 2012 or early May, the European Commission is going to table the UCITS V proposal, mainly in order to revamp the provisions on depository. By the end of this year or beginning next year, we will be involved in a new initiative on shadow banking at European level. This will have some impact on money market funds, for instance.

Patrice Bergé-Vincent



Francois Bonnin

Four years ago an institutional client of ours was willing to take a hedge against inflation by investing in commodities. They turned to us and asked if we could offer something more than a passive index and use our systematic approach.

We created JL Commodity Long Flat with some required restrictions: no leverage, good diversification and no shorts. The fund greatly outperformed the commodities index and displayed great performance. We also have been working on an equities program for the last two years we which we are running with internal prop money.

Francois Bonnin: Based on these expertise we intend to launch a long-only fund, using no or little leverage using the four assets classes equities, bonds, commodities and monetary vehicles in the attempt to avoid a down move in each of the 3 first asset categories and even within each category on specific instrument.

We feel there is a large demand for such funds by institutional investors and would be delighted to offer it to private investors too in a UCITS format.

As I said initially, we are the end of an acquisition process. We spent the past two years looking at different structures, including fund of funds, single managers, or platforms. Maybe we could be announcing a deal shortly.

Whatever happens, we will design new products this year. For instance, on a short term prospective, we also partner with a fairly large asset manager to do the selection and the allocation within their in-house hedge funds exclusively.

Like many of the other larger market participants, we are also looking for a managed account solution. We have investigated this in detail and have decided not go for an in-house solution. We will probably do this in a partnership format and will likely issue a RFP this summer.

Following client demand and the trend to an increased correlation within hedge funds and alternatives generally, we may build an overlay or direct market control tools until year end.

Diego Fluxa