



Opalesque Round Table Series '10 GENEVA

Opalesque 2010 Roundtable Series Sponsor:



Editor's Note

Dear Reader,

Geneva remains one of the favourite destinations for financiers – whether they be in private banking, trade finance, commodity trading, pension funds, family offices, private investors, or in the hedge fund industry – especially, it seems, in funds of hedge funds. This tightly-knit community has not stopped expanding in the last few years, despite the severe set-backs it suffered during the credit crisis and the Madoff scandal.

There are now around 22 hedge fund firms in Geneva and nearby Vaud, some of which being client facing subsidiaries to communicate with investors in place. Geneva hosts many funds of hedge funds but it is also a “hot spot” for single hedge funds, according Zurich University of Applied Sciences (ZHAW). Even if the later are still not in great numbers, many expect this to change.

Geneva is where Brevan Howard and BlueCrest moved recently. Many will say the strongest attractions of this place (and the rest of Switzerland) are the quality of life, the tax environment and it being outside the European Union.

Eight experts gathered at our 2010 Geneva Roundtable and discussed the following topics:

- Why gold and agriculture might be good places to invest
- Why managed accounts and platforms are so popular with investors
- What the problem with the low expected real rate of return is
- What some of the ways to limit drawdowns are
- Why it has been so difficult for hedge funds to raise capital
- What are the misconceptions about Geneva
- Where Geneva's finance industry is heading

The Roundtable took place in December 2010 at the offices of GAIA Capital and was attended by:

- **Jamil Ismail, Partner and Head of Distribution, IPM Informed Portfolio Management (IPM)**
- **Eric Bissonnier, Chief Investment Officer, EIM**
- **Alexandar Pechovitch, co-Founder, DHAULAGIRY Asset Management**
- **Joe Taussig, Founder, Taussig Capital**
- **Coast Sullenger, Founder, Managing Partner and Fund Manager, GAIA Capital Advisors**
- **Louis Zanolin, Partner, ALIX Capital SA**
- **David Barry, Head of Sales & Marketing Europe & Middle East, Custom House Group**
- **Cedric van Rijckevorsel, Managing Director, IDS Capital**

We want to thank the 2010 Roundtable Series sponsors Custom House Group and Taussig Capital for their support.

Enjoy “listening in” to the 2010 Opalesque Geneva Roundtable!

Benedicte Gravrand
Senior News Editor – Opalesque Ltd.
gravrand@opalesque.com

Participant Profiles



(LEFT TO RIGHT, STANDING FIRST)

Joe Taussig, Jamil Ismail, Eric Bissonnier, Alexandar Pechovitch, Benedicte Gravrand
Coast Sullenger, Louis Zanolin, David Barry, Cedric van Rijckevorsel

Introduction

Jamil Ismail

Informed Portfolio Management
(IPM)

I am Partner and Head of Distribution at Informed Portfolio Management (IPM), a Swedish asset manager established in 1998 and that manages over \$8 billion. Of that, \$6 billion is in GTAA, the flagship strategy, which is a fundamentally driven and systematically implemented global macro strategy. More recently our firm launched CTA and commodity strategies, which had been researched for many years. The remaining \$2 billion are invested in a long-only equity business based on a concept called Fundamental Indexation. This is an alternative methodology to market-cap by which we weigh the stocks according to their fundamentals as opposed to price usually used in market cap indices.

Eric Bissonnier

EIM

I am Chief Investment Officer for EIM, a multi-manager fund house with a strong bent toward hedge funds. We manage about \$7.5 billion, \$7 billion of which is in hedge funds, mainly for pension funds, government entities, and insurance companies. We have a UCITS, long-only, multi-manager structure that can be used for alternatives, and since June we've had a managed account platform that currently has 11 accounts and runs about \$500 million.

Alexandar Pechovitch

DHAULAGIRY Asset Management

I am co-Founder of DHAULAGIRY Asset Management, a one year old company. I am in charge of the challenging department and the risk management. We run \$15 million in managed accounts in an SRI hedged strategy and a market opportunities strategy.

Joe Taussig

Taussig Capital

My company Taussig Capital partners with hedge fund managers to create insurance companies and banks, where they manage all the investable assets. In more than 2,000 deals over the years, these managers have gathered billions of dollars in permanent capital, which offers significant outperformance for the investors. The best known deal was with David Einhorn of Greenlight Capital. We have \$1.8 billion, the company is publicly traded and it has outperformed its funds by 8% per year since inception, on a mark-to-market basis with about \$3 million a day of daily liquidity in the NASDAQ.

Coast Sullenger

GAIA Capital Advisors

I am the founder and a Managing Partner of GAIA Capital Advisors, an investment boutique created in 2006. We run two funds, a natural resource fund and an agriculture fund. Our strategies are equity and primarily, long-only equity strategies; we work with emerging markets and in the small and mid-cap space. We currently have about \$100 million in assets under management in the two funds and in specialized managed accounts

Louis Zanolin

ALIX Capital SA

I am one of the Founders and a Partner of ALIX Capital SA. Our firm is a Geneva-based investment company specializing in alternative investments. The company has been launched with the Palaedino Group, a Swiss-based private wealth-management company, and provides research and advisory services to the institutional investor community in the field of absolute return investing.

We are among other activities, the Index Provider to the *UCITS Alternative Index*, the leading benchmark of UCITS hedge funds and the publisher of the *UCITS Alternative Index Quarterly Industry Report*, probably the most comprehensive research support dedicated to the UCITS hedge fund industry.

David Barry

Custom House Global Fund Services

I am Head of Sales and Marketing for Custom House Global Fund Services, a global fund administrator. Our headquarters are located in Malta, with subsidiary offices in Dublin, Singapore, Chicago, Luxembourg, Netherlands, and Guernsey. We currently administrate over \$40 billion of

assets, spread across 200 clients and 600 funds including sub-funds. Custom House is fully SAS 70 compliant and has 300 employees globally.

Cedric van Rijckevorsel
Managing Director of IDS Capital

I am the Managing Director of IDS Capital, a Geneva-based, multi-family office founded in 2004. Our job is to think in terms of clients' needs and provide solutions to today's challenges. As part of our mandates we monitor risk across global portfolios, look for pockets of risk that are not covered by traditional money managers, and use outside specialised managers to provide real diversification to our clients' portfolios. We manage our own fund of hedge funds, a portfolio of fund of funds, equity risk multi-managers portfolios, and a systematic managed future program. We have recently decided to propose wider access to our services and funds beyond the founding families.

Jamil Ismail

Our main strategy, the GTAA, has its roots in financial theory. We look at fundamental factors to identify business cycles and capture future moves in markets. Markets have grown regime-dependent. The market is more sensitive to risk; the risk-on / risk-off fluctuations occur in shorter cycles than pre-crisis. This environment should benefit us as we typically give up a little in risk-on mode, to gain a lot in risk-off mode. The shorter cycles bring more opportunities.

One of the ideas we are working on is emerging markets, specifically currencies. The range of risks and risk factors managers need to carefully look at and take into account in these markets has grown significantly over the last few years. Robust risk management remains the key for long-term success.

Eric Bissonnier

We expect the positive environment for hedge funds that has existed since mid-2009 will continue. The main reasons for this are because there is less prop trading, less leverage in the system, and a lot of talent that will or that has started hedge funds - although even these talents are finding it difficult to raise capital. A lot of the inflows are going to very large hedge funds, which have become even larger and more invested in cash, whereas the smaller funds find it difficult to get past \$50 million or \$100 million.

We expect the positive environment for hedge funds that has existed since mid-2009 will continue. The main reasons for this are because there is less prop trading, less leverage in the system, and a lot of talent that will or that has started hedge funds - although even these talents are finding it difficult to raise capital. A lot of the inflows are going to very large hedge funds, which have become even larger and more invested in cash, whereas the smaller funds find it difficult to get past \$50 million or \$100 million.



We want to capture that part of the market. As 97% of our assets come from institutions, sovereign wealth funds, insurance companies, pension funds, it is tricky for us to invest large amounts in small funds, but very feasible through a managed account platform. It is widely believed that, over the next year, some small funds will consolidate in larger platforms, or that they will be looking for seeding deals in order to get started.

Eric Bissonnier

We want to capture that part of the market. As 97% of our assets come from institutions, sovereign wealth funds, insurance companies, pension funds, it is tricky for us to invest large amounts in small funds, but very feasible through a managed account platform. It is widely believed that, over the next year, some small funds will consolidate in larger platforms, or that they will be looking for seeding deals in order to get started.

In terms of products, we have started our own UCITS platform (we have had a multi-manager, long-only platform or umbrella since '95) and are working on a multi-strategy, UCITS hedge fund. We have developed strong views on that area, after discovering double standards between hedge funds and UCITS funds in terms of operational requirements. These requirements are in some ways looser in UCITS, especially as it relates to self administration and custody.

We have also developed a systematic ranking tool that we use for our hedge funds, in which we use qualitative and quantitative inputs. Because we found it to be a very efficient way to allocate risk and asset class, we have started a product based on platform hedge funds along those lines.

Alexandar Pechovitch

Our company is brand new and it is quite difficult to raise capital right now. The \$15 million we manage are from friends and family, but by year-end we will have a one-year track record, which should attract more interest from investors. Some of them are approaching us already, so we expect to get \$30 million by end of 2011.

Our market opportunities strategy identifying the risks and the growth potentials very liquid stocks, traded options, and is covered by futures or short positions. The exposure to the portfolio is currently around 19%. Our socially responsible investment strategy is a basic portfolio set up by specialists in extra financial criteria. They deliver an investment universe of 100 stocks from which we select 25. All positions are equal weighted (4% of the portfolio), and the portfolio is hedged through Euro stocks futures or ETF. The portfolio has returned 15% plus so far even though the exposure has always been less than 5%; so this is a real alpha portfolio.

We do have some projects for new funds, but not before we raise another \$15 million at least.

Coast Sullenger

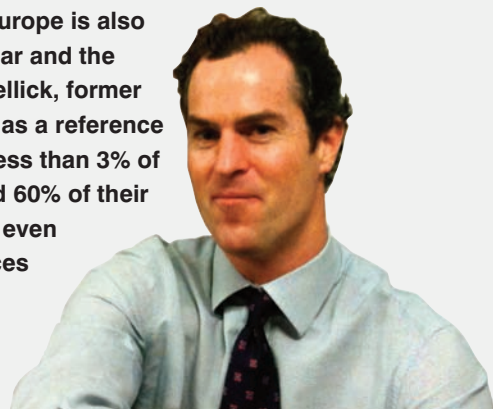
Since GAIA Capital was created in 2006, we have weathered the financial crisis quite well thanks to our specialization - natural resources and agriculture - which is attracting more and more interest.

Today our conviction is even stronger due to current fundamental news. For example, the programs of monetary expansion in the developed markets have been very positive for gold.

Today our conviction is even stronger due to current fundamental news. For example, the programs of monetary expansion in the developed markets have been very positive for gold.

There is a huge ballooning of the balance sheet in the United States with the debt-to-GDP ratio, which if you include all private debt and pension expenses is well over 300% of the GDP. Of course, Europe is also having these same issues. As a result traditional paper currencies like the Dollar and the Euro will probably continue to weaken. Gold is reflecting this trend. Robert Zoellick, former World Bank Chairman, recently wrote in an article that gold should come back as a reference currency. The Chinese have \$3 billion worth of reserves in gold, which is still less than 3% of reserves when compared to many other markets, which have between 40% and 60% of their reserves in gold. We think this is one of the key drivers, which will propel gold even higher going forward - or at least help it remain strong. Therefore, our Resources Fund stock-picking strategy is looking in the gold and precious metal space.

Coast Sullenger



There is a huge ballooning of the balance sheet in the United States with the debt-to-GDP ratio, which if you include all private debt and pension expenses is well over 300% of the GDP. Of course, Europe is also having these same issues. As a result traditional paper currencies like the Dollar and the Euro will probably continue to weaken. Gold is reflecting this trend. Robert Zoellick, former World Bank Chairman, recently wrote in an article that gold should come back as a reference currency. The Chinese have \$3 billion worth of reserves in gold, which is still less than 3% of reserves when compared to many other markets, which have between 40% and 60% of their reserves in gold. We think this is one of the key drivers, which will propel gold even higher going forward - or at least help it remain strong. Therefore, our Resources Fund stock-picking strategy is looking in the gold and precious metal space.

Agriculture, is something that five years ago no investor wanted to hear about, but now it is coming to the forefront because of the population growth, the change in consumption habits, and inventory levels being driven down and unable to recover. The UN and FAO provisions for agriculture show that food production has to increase by 50% by 2030 and as much as 80% by 2050. This is a huge challenge.

Today, the listed equities in agriculture represent something around \$600 billion, which is many times smaller than the energy sector. We think there is going to be a green revolution, which is going to bring money back into the agricultural sector. Indeed the historical prices of agricultural commodities are very low, especially when adjusted for inflation.

So those commodities are going to remain strong, and investor interest will come to agriculture; there is going to be a lot of expansion in terms of new listings and M&A, which we are already seeing in the fertilizer sector.

Louis Zanolin

Given our position of index provider to the *UCITS Alternative Index*, we have developed a unique knowledge of the UCITS hedge fund universe. We've started to monitor the performance of UCITS hedge funds in 2008 and are currently following more than 600 UCITS hedge funds.

We have recently launched in partnership with our parent company Palaedino Asset Management, the first investable UCITS Hedge Fund Index. The product, which aims to replicate the performance of the UCITS Alternative Blue Chip Index, is investing in the 50 most representative UCITS hedge funds over 10 different strategies. The product's goal is to offer a diversified, cheap and liquid access to the return of the UCITS hedge fund industry as a whole. The product is a Luxembourg SICAV offering weekly liquidity.

David Barry

As an administrator, in terms of strategies, we will continue to service hedge funds, CTA funds, and funds of funds – the staples, if you like – but we have seen a big uptake on the managed accounts, particularly managed account platforms.

In terms of new products, as Eric and Alexandar have mentioned, it has proven difficult for startup managers to raise sufficient capital, mainly due to low investor confidence. We anticipate this to improve over time but for now we are seeing startups relying on friends and family, and so they only have initial capital of between \$5 million and \$10 million. It is uneconomic for anyone to set up a stand-alone fund with that amount of capital in this day and age.

Accordingly, we have launched the Nascent Fund SICAV, a Maltese umbrella structure for startup managers to allow them build a track record in which we subsidize both the set-up cost and the annual operation costs for two years. This product is gaining traction, not just from emerging managers but from some private clients within investment banks.

Cedric van Rijckevorsel

One concern that many investors have, whether it be pension funds or families, is the expected real rate of return from the market. It is extremely low long-term. Based on the expectations of some U.S. based endowment funds investors should expect a long-term, real rate of return of around 4.7% for a globally diversified portfolio. That brings some perspective on a big problem: How do you match assets and liabilities for pension funds? And, how do you match assets and expenses for families, without deferring their quality of life? We construct some of our clients' portfolios on that basis. Instead of bringing a product, we provide a solution to a problem.

We have found, in the process, that there is a real convergence between traditional funds and hedge funds. In the last 15 years, many investors have spent more time recovering from drawdowns than growing capital. At a 4.7% expected real rate of return, it will take multiple years to recover investors' capital if they suffered losses of 20% to 50% in 2008.

In order to limit client drawdowns and allow for capital growth in rising markets, we try to associate the best part of the different investment instruments at our disposal: the passive world, because when the markets are going up, hardly anybody will beat indexes; the active world, i.e. hedge funds for alpha; and finally to limit downsides by systematically reducing the risk when the markets experience pronounced drawdowns. We use CTA and systematic managed futures programs to implement the latter as they suppress the need for allocators to perfectly time the markets.

One concern that many investors have, whether it be pension funds or families, is the expected real rate of return from the market. It is extremely low long-term. Based on the expectations of some U.S. based endowment funds investors should expect a long-term, real rate of return of around 4.7% for a globally diversified portfolio.

That brings some perspective on a big problem: How do you match assets and liabilities for pension funds? And, how do you match assets and expenses for families, without deferring their quality of life? We construct some of our clients' portfolios on that basis. Instead of bringing a product, we provide a solution to a problem.

We have found, in the process, that there is a real convergence between traditional funds and hedge funds. In the last 15 years, many investors have spent more time recovering from drawdowns than growing capital. At a 4.7% expected real rate of return, it will take multiple years to recover investors' capital if they suffered losses of 20% to 50% in 2008.



Cedric van Rijckevorsel

Benedicte Gravrand

Cedric's point is very interesting. How do you limit drawdowns?

Jamil Ismail

Firstly, in many parts of our products we do not rely on correlations because a correlation matrix might breakdown. Secondly, when we do look at correlations, we are far more interested in the tails of their distribution. We believe that if you lose a few basis points on the upside, but you protect your portfolio significantly on the downside, it is a good trade. For example, our systematic Global Macro/GTAA strategy is designed to have a volatility ranging between 15% -20%; statistically one could expect it to experience important drawdowns occasionally. As matter of fact, the largest one we ever had was -7.2%.

There are different methodologies to managing risks and a lot of managers use the classical VaR methodology, which is a bit like a correlation matrix; it works well until it does not work anymore. It tells you what probability you have to lose more than X%, but once you start losing more than X%, you are actually in the dark because you do not know how much more you could lose. This is where conditional VaR and limitation on risk dependencies are useful. In our opinion, managing a portfolio starts with risks; assessing the risks the manager chooses to take, managing those risks, and controlling them.

From a correlation point of view, IPM has focused on the so called "risk dependency", which is not correlation in the strict sense; it may be based on statistics, but also on observations and knowledge. We are interested in understanding how factors which might generally be "uncorrelated" suddenly become very correlated due to dependencies related to certain risks.

Jamil Ismail



There are different methodologies to managing risks and a lot of managers use the classical VaR methodology, which is a bit like a correlation matrix; it works well until it does not work anymore. It tells you what probability you have to lose more than X%, but once you start losing more than X%, you are actually in the dark because you do not know how much more you could lose. This is where conditional VaR and limitation on risk dependencies are useful. In our opinion, managing a portfolio starts with risks; assessing the risks the manager chooses to take, managing those risks, and controlling them.

From a correlation point of view, IPM has focused on the so called "risk dependency", which is not correlation in the strict sense; it may be based on statistics, but also on observations and knowledge.

We are interested in understanding how factors which might generally be “uncorrelated” suddenly become very correlated due to dependencies related to certain risks.

Eric Bissonnier

Avoiding drawdowns can be done analytically, as Jamil explained, ignoring correlations and considering skewed distributions and not just what happens around the average.

But I always say that we make money around the average. We really have to consider what happens away from the average on both sides. We do that also with downside correlations, or Copulas, and run Monte Carlo simulations to give us an exhaustive distribution of potential returns.

But I always say that we make money around the average. We really have to consider what happens away from the average on both sides. We do that also with downside correlations, or Copulas, and run Monte Carlo simulations to give us an exhaustive distribution of potential returns.



Since such a process largely uses historical data for the distributions, it looks at what has happened and gives you an idea of what the tails would have been if you had such a portfolio. It does not tell you the second part, which is the environment and how it could develop; especially nowadays as we cannot find an historical environment that would express what can happen over the next three years - none of the instruments that we have now existed 60 or 70 years ago. It is necessary to have a forward looking framework and a practical and dynamic way of looking at risk, by thinking about the environment in terms of where we are now, and what macro and market scenarios can be derived from that, much like weather forecasting.

Eric Bissonnier

Since such a process largely uses historical data for the distributions, it looks at what has happened and gives you an idea of what the tails would have been if you had such a portfolio. It does not tell you the second part, which is the environment and how it could develop; especially nowadays as we cannot find an historical environment that would express what can happen over the next three years - none of the instruments that we have now existed 60 or 70 years ago. It is necessary to have a forward looking framework and a practical and dynamic way of looking at risk, by thinking about the environment in terms of where we are now, and what macro and market scenarios can be derived from that, much like weather forecasting.

We try to figure out how things can evolve over a time scale that is relevant. Hedge funds are paid to adjust over the short-term; therefore we build a portfolio for the average and then look at how the tails are taken care of. We have explicit numbers because all of our managers report their exposures through RiskMetrics once a month. We can check if anything is in the central scenario, if markets continue to behave normally, and if things go wrong, in a deflation or an inflation scenario, if there is sovereign risk blowing up or a strongly positive market brewing. Then you can start to quantify that and find out if you really need to find a hedge or some tail protection or anything that can help.

That is how, with the right analytical framework and a practical attitude about the forthcoming environment, you can find a way to reduce or minimize the drawdowns - or at least you can have a very explicit expectation as to what the drawdown can be.

If a client's assumption of a future scenario is different, the discussion into how we can help reduce downside is more robust. Hedge fund strategies provide an enormous amount of possibilities in tailoring portfolios- as long as you understand what the managers do. There are a lot of ways to mitigate some of the main risks that are present in the client portfolio, and not just through a multi-strategy portfolio and “hoping for the best”.

Alexandar Pechovitch

I managed pension funds for seven years and I learned that if you want to win on a long-term basis you have to avoid losing money on the short-term. So that is why we implemented very rigorous risk management in our company; we will do everything to avoid any drawdowns or even any performance of minus 3% a month. To achieve this, we manage closely the exposure of our portfolio. But the main problem with drawdowns is they always occur when you do not expect them to, i.e. when you cannot or do not understand a situation, or the way people are reacting.

I managed pension funds for seven years and I learned that if you want to win on a long-term basis you have to avoid losing money on the short-term. So that is why we implemented very rigorous risk management in our company; we will do everything to avoid any drawdowns or even any performance of minus 3% a month. To achieve this, we manage closely the exposure of our portfolio.

But the main problem with drawdowns is they always occur when you do not expect them to, i.e. when you cannot or do not understand a situation, or the way people are reacting.



Alexandar Pechovitch

After 2001-2003 large investors, such as pension funds, had to diversify their portfolios. They started investing in hedge funds, funds of hedge funds, basic materials, oil, infrastructure, and private equity to diversify their sources of return and risk. But under particular market circumstances, and even though the diversification of their portfolios included a large number of different assets, those investors behaved the same way (risk-averse). In French it is called following the “Mouton de Panurge,” sheep following one another and falling off a cliff. That same behavior created a convergence of correlation between asset classes that were supposed not to have correlation. This ended with major drawdowns within almost all asset classes.

In the future, we may have big drawdowns more frequently and the best way to deal with this is to always hedge your position, and to create an upside, which is very difficult.

Coast Sullenger

As a single manager we consider ourselves more of a building block and think GAIA's funds should be part of a global asset allocation.

The commodity sector is very volatile and there are strategies that try to reduce that volatility, such as long/short strategies, but not us. Some of those strategies are surely valid, but generally speaking our space is a very difficult space to be short. Just to give you an example, if you take the case of shorting Roche or Nestle or GM, your maximum loss is probably going to be somewhat limited because those stocks are not going to double in price. But if you go short in gold mining or a gold exploration company, even if the manager is the most incompetent promoter in the world, if by luck he discovers a 5 million ounce deposit, his stock can go up easily 500% or 1,000%.

Instead of shorting, we constantly exercise risk control, mostly on fundamental criteria. If we want exposure across the resource space, we invest in different geographies such as Latin America, Russia, Canada, and in each place are different risks.

Another way is to invest in companies of different segments which react to different drivers; agriculture might react differently to energy, which might react differently to gold.

As for the companies themselves, many are situated at different stages of their life cycle, some are more prone to organic or some stock specific drivers, whereas others are subject more to systemic risk. That is the way we run a diversified portfolio and reduce this volatility. But we all know that when there is a big systemic issue, all asset classes suddenly become quite correlated.

Judging from where asset allocators are today gold is still around 1%, a figure that is very hard to believe because in Switzerland it's historically 5% or 10%. A more reasonable allocation would be upwards of 5% to 10% at least, and we are a long way from that.

Louis Zanolin

Drawdowns in UCITS hedge funds should be if not lower, at least more manageable from an investor perspective than in an offshore hedge funds structure.

The UCITS framework, notably its rules regarding eligible assets and liquidity prohibit investments in illiquid assets and allow investors to exit from the fund at least twice a month. These rules should over the long run limit large drawdowns.

Hedge fund investors will become more and more attentive to the mismatch of the liquidity between the fund and its underlying investments. They will no longer accept investing into liquid strategies via illiquid vehicles and the reverse. Going forward the most liquid hedge funds strategies will be offered increasingly via liquid, regulated onshore products.

Benedicte Gravrand

Some of you talked about the difficulties of asset raising in the first part of the conversation. Could you please elaborate on that, tell me more about investment flows into Geneva and about investor's new approach to investing.

Jamil Ismail

Every company is special in its own way, and so are we. Since our inception in 1998, we have only focused on institutional investors. Today, our client base is made almost exclusively of central banks, insurance companies and pension funds. With regards to asset raising, it has been difficult to raise cash simply because investors have been short of cash themselves.

During crises asset retention is equally important to asset raising. Out of the \$6 billion we manage in the GTAA/systematic global macro strategy, which only trades the most liquid instruments, \$5.5 billion are in managed accounts, which means that clients enjoy total liquidity and transparency. In a year like 2008, we had zero dollars in outflows from those accounts. Our investors did not redeem despite the generous liquidity terms. There are a number of factors that determine how sticky the assets might be. Obviously the nature of the investor is very important, but also the manager's ability to communicate adequately, be transparent, etc...

Eric Bissonnier

Speaking on behalf of the fund of hedge funds industry, especially in Europe, we are seeing a number of funds (and fund of funds) that have very limited assets or decreasing assets, that are having to close, merge, or find partners to restart.

This is a very tricky situation and the challenge for the industry at large – as much for banks as for independent companies like ours, is to reinvent a purpose. In general, selecting managers is never going to be straightforward. But some of the requirements many institutional clients have, including transparency, show they want to know more about what is going on, to know that pricing is done independently, and that assets are reconciled, etc.. Now you have to have a much bigger infrastructure than before, and meanwhile the fees are going down.

To make a difference as a fund of hedge funds, it is best not to recommend investments into the 20 or 25 largest hedge funds. The smaller manager space offers more possibilities, maybe not in seeding per se, but definitely in finding a structure that would be appropriate for institutions which want to invest in that space. A properly structured managed account platform can be very effective for that purpose.

The fund of hedge funds industry in Europe needs to reinvent into more structurally complicated business, but also one that is more transparent than it used to be. On the other hand, the managed account platform takes a lot of time to put together and then is onerous to maintain, but it definitely makes a huge difference.

This is a very tricky situation and the challenge for the industry at large – as much for banks as for independent companies like ours, is to reinvent a purpose. In general, selecting managers is never going to be straightforward. But some of the requirements many institutional clients have, including transparency, show they want to know more about what is going on, to know that pricing is done independently, and that assets are reconciled, etc.. Now you have to have a much bigger infrastructure than before, and meanwhile the fees are going down.

To make a difference as a fund of hedge funds, it is best not to recommend investments into the 20 or 25 largest hedge funds. The smaller manager space offers more possibilities, maybe not in seeding per se, but definitely in finding a structure that would be appropriate for institutions which want to invest in that space. A properly structured managed account platform can be very effective for that purpose.

The fund of hedge funds industry in Europe needs to reinvent into more structurally complicated business, but also one that is more transparent than it used to be. On the other hand, the managed account platform takes a lot of time to put together and then is onerous to maintain, but it definitely makes a huge difference.



Eric Bissonnier

Alexandar Pechovitch

Now we have \$15 million in managed accounts. Some institutional investors would like us to manage a fund but we do not have enough assets to set up a fund with an acceptable total expense ratio. So, we are looking for an entrepreneurial investor to move forward.

One partner in our team is dedicated to approaching institutional investors. At the present time, the business model is established only with high net worth individuals and with private clients. Since 2008 investors prefer to be in a very big bank with a brand name where they pay high fees, but feel secure about that. The main issue for investors is security, quality of performance comes after.

Joe Taussig

We raised a considerable amount of assets by accident. The people who provide those assets are not even thinking about the hedge fund manager running them when they do. We use two vehicles and the first providers of assets are people who buy insurance or re-insurance from our insurance companies. For example with Greenlight Capital Re, David Einhorn put up the original capital of \$100 million and his investors put up a little over \$150 million. We then publicly raised another \$0.25 billion and with the earnings, the total was more than \$1 billion.

We raised a considerable amount of assets by accident. The people who provide those assets are not even thinking about the hedge fund manager running them when they do. We use two vehicles and the first providers of assets are people who buy insurance or re-insurance from our insurance companies. For example with Greenlight Capital Re, David Einhorn put up the original capital of \$100 million and his investors put up a little over \$150 million. We then publicly raised another \$0.25 billion and with the earnings, the total was more than \$1 billion.

Our company has helped hedge fund managers raise billions of dollars like that. They continue to raise assets every month, because the person buying the coverage is not concerned about the fact that assets are going to a hedge fund manager. Buffett did this 40 years ago and raised billions of dollars “The Float”, which were assets from premium payers, then invested in his strategy. In the banking business we get assets from depositors. For some hedge fund strategies it is a little bit trickier, but if you are a credit strategy or an asset based lending fund, then it is just an extension of what you are doing.

Joseph Taussig



Our company has helped hedge fund managers raise billions of dollars like that. They continue to raise assets every month, because the person buying the coverage is not concerned about the fact that assets are going to a hedge fund manager. Buffett did this 40 years ago and raised billions of dollars “The Float”, which were assets from premium payers, then invested in his strategy. In the banking business we get assets from depositors. For some hedge fund strategies it is a little bit trickier, but if you are a credit strategy or an asset based lending fund, then it is just an extension of what you are doing.

I am involved with a bank that uses deposits like a prop book and we are very careful about that. The prop book has never been more than two times equity. Goldman Sachs would not even think twice about using deposits for prop books, but we do and this is the reason why: if you have \$100 of equity, and say \$200 of reserves of deposits exposed to the strategy, and you have a 20% drawdown, you have taken the equity down to 40, but the liability are still 200 - and regulators in the insurance business do not like that five to one.

Coast Sullenger

Through the financial crisis, we of course suffered from many of the same issues as other asset managers of our size; there were outflows across all equities including resource equities. On the other hand, we did manage to grow our assets in 2009 from institutional and family office clients through our new managed accounts.

Today, we see as much interest in managed account solutions as in our existing funds, despite the fact that the funds have long track records (one is six-years old, the other almost three) and are in sectors that are gaining a lot of interest.



The crisis of 2008 created a knee-jerk reaction, where in the case of hedge funds most institutional investors tried to reduce their risk by selling off all non-core managers. One of the reasons the T-bill yields are so low is because all that money just went into short-term liquidity instruments and T-bills, but that is a great mistake because T-bills really do not give you much yield today and investors are also underestimating the potential for eventual inflation.

Coast Sullenger

Today, we see as much interest in managed account solutions as in our existing funds, despite the fact that the funds have long track records (one is six-years old, the other almost three) and are in sectors that are gaining a lot of interest.

The crisis of 2008 created a knee-jerk reaction, where in the case of hedge funds most institutional investors tried to reduce their risk by selling off all non-core managers. One of the reasons the T-bill yields are so low is because all that money just went into short-term liquidity instruments and T-bills, but that is a great mistake because T-bills really do not give you much yield today and investors are also underestimating the potential for eventual inflation.

One of the things that we have to do in order to sell our products is to educate the investment community especially in agriculture, because it is a sector which has been under-invested for so many years; in Europe and the United States it was never much of an investable sector because agriculture in those regions generally relies on subsidies. And it has never been really investable outside of some well-known companies like Monsanto. One of the initiatives we have taken is to produce a documentary film on the global agricultural sector called “**Last Supper for Malthus.**” We also speak in the media and we try to explain to investors how the industry is structured and what the key drivers are.

David Barry

The start-up/emerging managers are indeed experiencing difficulties in raising capital. I believe there are two main contributors to this; one is the lack of confidence following the events of 2007 and 2008.

The second reason is concerning investor exposure, particularly for institutional investors. Both these factors are supported by statistics, which show the majority of inflows this year went to the top ten hedge funds.

The start-up/emerging managers are indeed experiencing difficulties in raising capital. I believe there are two main contributors to this; one is the lack of confidence following the events of 2007 and 2008. The second reason is concerning investor exposure, particularly for institutional investors. Both these factors are supported by statistics, which show the majority of inflows this year went to the top ten hedge funds.

If you invest, say \$10m dollars into a \$20 billion dollar fund, your investment represents, a small percentage of the fund, whereas if you are the initial seed capital to an emerging manager, this represent a 100% exposure and a greater risk – investor confidence has not reached a level where they would be comfortable to be the seed investor.



David Barry

If you invest, say \$10m dollars into a \$20 billion dollar fund, your investment represents, a small percentage of the fund, whereas if you are the initial seed capital to an emerging manager, this represent a 100% exposure and a greater risk – investor confidence has not reached a level where they would be comfortable to be the seed investor.

One of the major sources of capital for small boutique managers came from the fund of funds managers. Unfortunately, they have really suffered due to liquidity miss-matches, as investors now seek more liquidity, and as a result it's the smaller manager who suffers.

Cedric van Rijckevorsel

We run, among other things, a portfolio of fund of funds and we have a very hard time finding less than 30% overlap between them. This means that everybody looks at the same things. This was demonstrated in 2008 when many fund of funds got stuck into the same big hedge funds. Clients who thought they had a diversified portfolio by owning 3 or 4 different fund of funds, found themselves locked in with the same underlying managers. So we welcome any trend towards smaller managers which we believe have always been a fertile ground for alpha. This is historically the area we focus on in our own fund of funds, and then grow with these managers as their successes are being recognized.



We run, among other things, a portfolio of fund of funds and we have a very hard time finding less than 30% overlap between them. This means that everybody looks at the same things. This was demonstrated in 2008 when many fund of funds got stuck into the same big hedge funds. Clients who thought they had a diversified portfolio by owning 3 or 4 different fund of funds, found themselves locked in with the same underlying managers. So we welcome any trend towards smaller managers which we believe have always been a fertile ground for alpha. This is historically the area we focus on in our own fund of funds, and then grow with these managers as their successes are being recognized.

Cedric van Rijckevorsel

The other aspect that some of you raised is that liquidity and transparency are here to stay. Nobody wants to be locked in anymore. UCITS and managed accounts are just tools to do that. However, you have to be diligent in the use of such instruments and be clearly aware of their pitfalls. For example, some of the UCITS using sub-structure can still trade in illiquid assets. There may be issues there and

you have to be very careful about using these tools. The positive side resides in the increasing number of instruments that we have available.

For small funds, it is more and more difficult to acquire the first capital, because of investors' fears following a good number of frauds in the last few years and the infrastructure that is now needed. This probably provides some additional negotiating power to allocators.

Finally, I am not surprised to see restructuring happening at banks. Merging traditional asset management with alternative asset management makes sense. They trade the same assets, such as equity, bonds, etc. So putting them together and managing risk amongst them can make more efficient portfolios.

Joe Taussig

Yes but Greenlight trades at one-and-a-half a book, which is even better. I am generally negative about closed-end funds.

There is now great emphasis on managed accounts, platforms, UCITS, and liquidity. With regards to the latter, I always felt the term "liquidity premium" was a misnomer. Rather, it should be called "liquidity penalty."

One of the concerns I have about the UCITS business and the managed account platforms is that the fund manager has to look over his shoulder and eliminate some of his best ideas because he is worried about liquidity. There are investors who knowingly give up benefits for that liquidity, as a trade off, but it is a pretty severe penalty in my estimation. The studies that I have seen on the managed account platforms point to 200 to 300 basis points a year that is given up when making an apples-to-apples comparison. I suspect the UCITS are going to have even bigger problems in performance comparisons overtime.

Also, the alternative asset business is a mixture of very talented people who put forward their best ideas (which is what you hire them to do). They have expertise in various areas, so the best idea for Coast it is going to be something in the agricultural area or gold... With smaller managers who have more ideas than money, one should perform triage and allocate to one, who will probably be pretty good. If your long-term capital shows you had 7,000 trades, nobody can tell me that 6,991 to 7,000 trades will likely lead to a good outcome.

Louis Zanolin

A number of UCITS vehicles are currently being launched and there might be some tracking error between the UCITS and their offshore equivalent vehicles. However if there is tracking error this is generally not a result of the structure itself – costs associated with UCITS funds are more or less equivalent to the costs of an offshore fund – but rather a consequence of the positioning of the products. The UCITS are often designed by their promoter to be less risky than their offshore equivalent. However, when a fund applies the exact same strategy in both structures, the tracking error should be nil or minimal.

A number of UCITS vehicles are currently being launched and there might be some tracking error between the UCITS and their offshore equivalent vehicles. However if there is tracking error this is generally not a result of the structure itself – costs associated with UCITS funds are more or less equivalent to the costs of an offshore fund – but rather a consequence of the positioning of the products. The UCITS are often designed by their promoter to be less risky than their offshore equivalent. However, when a fund applies the exact same strategy in both structures, the tracking error should be nil or minimal.

Louis Zanolin



Joe Taussig

Actually it will vary from strategy to strategy. Jamil's strategy would not have much tracking error as it has higher liquidity to begin with. Certain strategies are not going to have that kind of tracking error, but for example Buffet, who is the ultimate value investor, his performance during the last 10

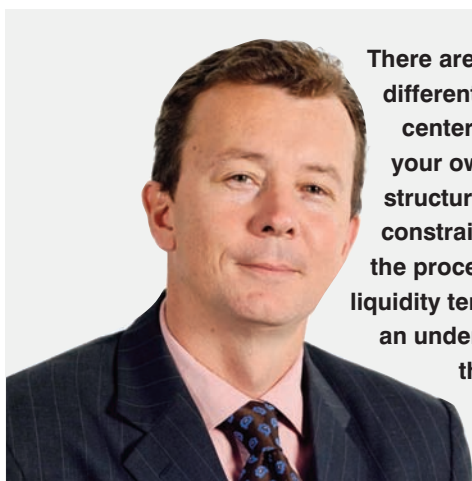
to 15 years has not been nearly as good as his previous performance. So he is living off a storehouse of wealth that he accumulated during the first 25 years, not the last 10 to 15. But if you look at his track record, buying old companies that are liquid have been the thing that has kept him going over the last 10 to 15 years, not a publicly traded portfolio. If you think about Tiger versus Buffet, when Tiger went out of business, it had annualized returns since inception of over 20% and still had \$6 billion. Most people think that is a viable business. But he went out of business because he had been running \$22 billion: for every point he lost in performance, he lost two points through redemptions. He also had a high watermark problem and his payroll may have exceeded \$1 billion, which can be a problem if you want to get back over the high watermark.

At that time, my largest client was XL Capital; they gave \$500 million to Tiger's number two and number three who took about 30 people with them to start FrontPoint. Those who left Tiger were not replaced. Julian Robertson went out of business because there was nobody left to service the \$6 billion and nobody to replace him. It is interesting to compare him to Buffet, who has an identical investment strategy: if you are not happy with Buffet, you just sell on the New York Stock Exchange. But you could not continue with Julian - and that shows there are serious ramifications for this industry over the next 20 years.

Eric Bissonnier

We are mixing objectives between what these vehicles are and what is appropriate for what purpose. Liquidity per se cannot be the objective. The objective has to be the ability to have the best managers implementing their best strategy, in a controlled environment.

There are a lot of managed account platforms and they can mean very different things to different people. Managed account platforms are typically bank structures that are profit centers - structured to make a profit. But if you are a large pension fund and you run your own managed account, obviously you are not going to build an expensive structure; and, if you are interested in the skills of the managers you are not going to constrain them. Managed accounts do not have to have daily liquidity; in fact we are in the process of putting a distressed managed account together, which will have very long liquidity terms. You can do a managed account that has the same liquidity terms as that of an underlying fund. The difference is it's priced independently-- in our case, we reconcile the assets and the trades everyday.



There are a lot of managed account platforms and they can mean very different things to different people. Managed account platforms are typically bank structures that are profit centers - structured to make a profit. But if you are a large pension fund and you run your own managed account, obviously you are not going to build an expensive structure; and, if you are interested in the skills of the managers you are not going to constrain them. Managed accounts do not have to have daily liquidity; in fact we are in the process of putting a distressed managed account together, which will have very long liquidity terms. You can do a managed account that has the same liquidity terms as that of an underlying fund. The difference is it's priced independently - in our case, we reconcile the assets and the trades everyday.

Eric Bissonnier

The purpose here is to access some smaller managers who have skills. Our clients appreciate knowing what is going on. I can legitimately tell them I know what is in there, how it is priced, and that I am happy with the structure of the portfolio.

2008 was a huge frustration for us and for many others as we had to get out of funds, because investors were redeeming from them. With managed accounts, even if there will be marked-to-market losses, you do not have to get out, because you know who your clients are, you know they will not move.

The tracking error in our case is very low, because we actually do not charge anything extra on the funds, and the guidelines we impose are the ones they use in their funds anyway.

Joe Taussig

That is actually a good point.

Eric Bissonnier

So it all really depends on the objective. We observed a tracking error of 2% or 3% in the bank sponsored platforms, especially a couple of the very large ones. In the way they structure them, you just cannot escape it; and yet they have doubled or tripled their assets since early 2009. So obviously, there is a demand for that.

That is also - and I am looking at Coast - paradoxically a more static asset base, because it is complicated to set up and you do not have to worry about the other investors. For us assets would be stickier within the managed accounts than in the funds in times of stress.

Jamil Ismail

For most investors, the liquidity in managed accounts isn't the ultimate objective; what they really want is a strategy where they know what is in it. But even though it is not applicable on all strategies, when it is applicable, public investors do expect to have better liquidity terms than with a synthetic manager for example.

For most investors, the liquidity in managed accounts isn't the ultimate objective; what they really want is a strategy where they know what is in it. But even though it is not applicable on all strategies, when it is applicable, public investors do expect to have better liquidity terms than with a synthetic manager for example.

Going back to a point that has been mentioned on a couple of occasions with regard to funds versus managed account investment, interestingly, although most of our money sits in managed accounts, the larger institutional investors have recently preferred to enter into the funds. From a wider perspective, hedge funds are no longer exclusive to larger investors, but they are more accessible medium and small size of investors who cannot run a managed account.

Jamil Ismail



Going back to a point that has been mentioned on a couple of occasions with regard to funds versus managed account investment, interestingly, although most of our money sits in managed accounts, the larger institutional investors have recently preferred to enter into the funds. From a wider perspective, hedge funds are no longer exclusive to larger investors, but they are more accessible medium and small size of investors who cannot run a managed account.

When you set up a managed account with a manager, you get the transparency, the liquidity, and you also become the risk manager of that account. Your Board might actually expect you to actively manage the risk of the account. Investors generally want to rely on their manager to appropriately manage the risk of the strategy he has built and that he knows very well. And that is actually true, if you look at the investor community as a whole they buy expertise but they cannot be the best risk managers of all strategies.

Coast Sullenger

It seems that over the last 18 months or so, returns have generally been very disappointing. This is maybe an encouraging phenomenon for small managers and as a testament to that, earlier this week, an article said that Pictet, one of the biggest banks and asset allocators in town, with around CHF200 billion in assets, is now starting to look towards small managers again.

We may have seen the worst in terms of the distaste or fear of small managers and we might see an improvement in allocations especially for certain strategies.

Louis Zanolin

I think that managed account platforms have a number of advantages when compared to direct offshore hedge fund investments. However I'm a bit concerned with the multiplication of these platforms and the costs associated to it. I believe that there will be a consolidation in the number of

platforms over the next few years and that only the largest structures with the critical mass both in terms of number of funds and assets under management will survive.



I think that managed account platforms have a number of advantages when compared to direct offshore hedge fund investments. However I'm a bit concerned with the multiplication of these platforms and the costs associated to it. I believe that there will be a consolidation in the number of platforms over the next few years and that only the largest structures with the critical mass both in terms of number of funds and assets under management will survive.

Louis Zanolin

Cedric van Rijckevorsel

You are mixing up two different categories of managed accounts. There is what I call the “real” managed account, which is a single-investor managed account, and then there is the commingled managed account, which are mostly implemented by platforms. The assets required to create a single managed account is obviously high, so the barrier to entry is high. I agree with your point in terms of platforms, there is definitely a limitation. The benefits of the two different sides are very different.

In 2008 some long/short equity managers locked up their funds when they were trading fairly liquid instruments. Both single and comingled managed accounts would have dealt with the situation appropriately, as they guarantee the independence of the administration of the account.

Single managed accounts are ideal for less liquid assets as they allow investors to deal with their own liquidity and not run the risk of conflict of interest between shareholders.

In terms of transparency, very few platforms will provide investors with access to the manager anymore. And the manager will tell you that he considers the platform as its sole client and not the end investor. So you lose transparency instead of gaining transparency. Do you want that? No. Our policy is to always have direct access to the managers we invest with. The single managed account is a completely different issue.

David Barry

We have been fortunate enough to administrate both a large managed account platform, the Innocap-BNP platform, which has over \$2 billion under management and provides “independent verification” for single managed accounts. I would, agree, that platforms can be quite restrictive. A single managed account provides greater flexibility and the ability to negotiate more favorable terms, such as lower management or performance fees.

Somebody mentioned that managed accounts are like an expensive insurance. I don't think they are overly expensive, but they definitely give you the insurance against liquidity miss-matching. However, for a manager, they can be an operational headache, in particularly if they are mirroring their flagship fund and splitting trades, and investors should be aware of the potential lag in performance.

It is worth mentioning, that one of the larger asset managers based in Ireland offers a managed account for their illiquid strategies only. I think this again highlights the flexibility of managed accounts and that they can be used not just to satisfy investor's desire for liquidity.

Coast Sullenger

As a single manager, we look very favorably on these managed accounts, particularly when there is just one client behind them, because really it is just the same for us as running any fund or any other mandate - so long as the guidelines are clear.

We think it is very important to have a very consistent and transparent and proactive communication with investors by way of monthly reports and regular reporting. Managed accounts with many investors behind them would be more complicated, but these large managed accounts that are

institutionally-driven or family office-driven are very interesting, because they are much cheaper.

In commingled accounts, you do not have this issue of mismatches of liquidity, or of different investors holding different percentages of the fund and more or less power. As long as the investor is feeling more comfortable with his assets and having his managed account with his own custodian, then that is all the better for us.

Joe Taussig

Eric, you made a really great point about a managed account having similar liquidity terms to that of the fund. The problem is when a manager has both a fund and a managed account. There is a thing called co-investor risk, and we saw that in 2008 when some of the investors (particularly in the funds of funds) were under pressure for their own redemptions and some of the Swiss private banks needed liquidity for their clients. If you have a managed account, it can hit the exits much more readily, but you actually do damage to the fund investors. I know people who just would not invest in any manager that has both fund and managed account, or they only invest in the fund.

Coast Sullenger

That is a really important issue from a manager's perspective. We have several portfolios in the same space which overlap, and this becomes very important when we make our trade to have a fair allocation between those different portfolios. Those issues are really important and managers have to be very transparent about how they communicate, and show their internal process to the allocators because there are a number of potential conflicts of interest for the manager who runs the managed accounts and the funds.

Another potential conflict is that they are getting much higher performance fees on one account than the other account and therefore they might have the natural incentive to prioritize one account over the other. That is where having a documented internal process is extremely important.

Benedicte Gravrand

My last question is about Geneva. Where is the hedge fund industry in Geneva heading, and what are the advantages and disadvantages of being located in Geneva?

Cedric van Rijckevorsel

Geneva is a very nice place to live. The quality of life is great, the mountains are next door, the weather is definitely better than London. However people should have a closer look before coming because there are a lot of misconceptions about Geneva. We have seen lots of very big firms relocating to Geneva with hundreds of employees trying to find space for their office. They found the space, but finding lodging for all of these people and finding schools for their children could be difficult. So it is not as easy as it may seem to relocate to Geneva.

However people should have a closer look before coming because there are a lot of misconceptions about Geneva. We have seen lots of very big firms relocating to Geneva with hundreds of employees trying to find space for their office. They found the space, but finding lodging for all of these people and finding schools for their children could be difficult. So it is not as easy as it may seem to relocate to Geneva.

The other thing that needs to be looked at is the evolution of the regulatory environment. Moving to Geneva means moving out of the European Union and there is still a question mark as to how things will develop. Maybe in two years' time, all the people who moved to Geneva will move back to England because it is part of Europe.

Cedric van Rijckevorsel



The other thing that needs to be looked at is the evolution of the regulatory environment. Moving to Geneva means moving out of the European Union and there is still a question mark as to how things will develop. Maybe in two years' time, all the people who moved to Geneva will move back to

England because it is part of Europe. I do not know. Many people mention the tax advantages. Whether this is a sufficient reason or not is questionable.

David Barry

There has been a lot of press and comment on the flood of UK hedge managers who are moving all, or the senior executives, of their UK operation to Geneva. The biggest move to date was Alan Howard, one of the principals of Brevan Howard. The main drivers for this are the changes in the UK tax regime and the AIFM Directive. I have to agree with Cedric, it is not just about tax, and one of the attractions of Geneva is its quality of life, good transport system, excellent schools and so on. The main problem with the competition in Geneva will probably come from rising real estate costs, which is almost inevitable, if a flood of hedge fund managers move in.



In terms of Geneva in the funds industry itself, it is widely known that the city has suffered greatly from the Madoff scandal. Institutional investors and private investors are placing a greater emphasis on transparency, liquidity, and thankfully, due diligence. However, I believe Geneva will continue to be competitive in terms of local taxes – and will remain a popular location for many asset managers.

David Barry

In terms of Geneva in the funds industry itself, it is widely known that the city has suffered greatly from the Madoff scandal. Institutional investors and private investors are placing a greater emphasis on transparency, liquidity, and thankfully, due diligence. However, I believe Geneva will continue to be competitive in terms of local taxes – and will remain a popular location for many asset managers.

Coast Sullenger

Over and above those issues mentioned, like legal issues, taxation issues, issues of lifestyle, there are some other advantages in Geneva.

For one, there is a very good infrastructure; it is really easy to get around, there is not too much traffic, and you are really centrally located within Europe with the Geneva Airport at close proximity. So it is very easy to fly in and out.

The second issue is the large capital pools in Geneva. Geneva being a dynamic private banking sector, there is an enormous amount of capital here. Over half of our assets came from Geneva. We have been based here for some time and even though it is a little bit of a close-knit club, there is a tremendous amount of capital. Allocators also feel some comfort knowing the manager is just down the street, which is positive too.

Something that may be more specific to our business in natural resources is that Geneva also hosts a very large trade finance business. It is a massive hub for trade finance and companies from all over the world including Norilsk Nickel from Russia or Elf Trading have big trading operations here. It is a huge advantage being in close proximity and well-networked with the people who are trading in the physical commodities, even though this is not what we do.



Coast Sullenger

The second issue is the large capital pools in Geneva. Geneva being a dynamic private banking sector, there is an enormous amount of capital here. Over half of our assets came from Geneva. We have been based here for some time and even though it is a little bit of a close-knit club, there is a tremendous amount of capital. Allocators also feel some comfort knowing the manager is just down the street, which is positive too.

Something that may be more specific to our business in natural resources is that Geneva also hosts a very large trade finance business. It is a massive hub for trade finance and companies from all over the world including Norilsk Nickel from Russia or Elf Trading have big trading operations here. It is

a huge advantage being in close proximity and well-networked with the people who are trading in the physical commodities, even though this is not what we do.

And then lastly, Geneva is the type of place that attracts a lot of entrepreneurs and also a lot of companies that go through Europe on road shows. I really do not think that we have much less exposure sitting here in Geneva than we would if we were in New York or London. When companies from all parts of the world come to Europe, they go to London and they come to Geneva - and maybe Zurich or Paris.

Joe Taussig

There is a vote this weekend on taxation in Switzerland and that could have a deleterious effect.

Historically, the country of Switzerland has cash competition; that is actually something good even within the some borders. You see a lot of Swiss cars with license plates that say AI, which is Appenzell Innerrhoden; entrepreneurs have staked out the car rental business from a tax standpoint and that is a major source of revenue used for a very small canton here.



Some of the bigger cantons are pushed very hard to harmonize taxation and there have been some moves towards that. For example, moves against the law that exists in Switzerland, which allows non-Swiss, non-Americans to negotiate their own tax rates when they come here, and that has been one of the attractions in Switzerland. And those rules are more focused on tax; that is why there is such a great number of hedge fund managers in Zurich, which has historically been willing to issue very attractive tax rates.

Joseph Taussig

Some of the bigger cantons are pushed very hard to harmonize taxation and there have been some moves towards that. For example, moves against the law that exists in Switzerland, which allows non-Swiss, non-Americans to negotiate their own tax rates when they come here, and that has been one of the attractions in Switzerland. And those rules are more focused on tax; that is why there is such a great number of hedge fund managers in Zurich, which has historically been willing to issue very attractive tax rates.

The vote could have quite an effect, because there is the slippery slope of mitigating and harmonizing taxation throughout the country.

Eric Bissonnier

We are based in Nyon, which is in another canton from Geneva, and so I have my passport with me.

Apart from taxes, there is something that U.K managers living in London would miss here, which is going to the pub and hearing and sharing trades - which can be a good or a bad thing. Some have difficulty adapting to that and have gone back to the U.K. because of that.

For living in Geneva to be attractive, the tax implication has to be larger. For the tax implication to be larger, you have to have a large income and wealth which is typically for partners of big companies. If you look at how many funds actually moved this year, it is really just two large ones.

But this can be very positive for Geneva in the long term - and we can see that across the table here with people who were in larger firms and who stayed in Geneva and started their own asset management business. And we can see that also in the way trade finance and commodity trading has expanded over the last two decades.

We will see, at least in Geneva in the next 10 or 20 years, the scale that this evolution will reach. Little by little, we will start to have a larger hedge fund industry, probably of better quality than what we have had historically, combined with a commodity trading industry and a trade finance industry. This will make it very unique. It is a big opportunity for Geneva and probably for Nyon as well - over the long run.

Jamil Ismail

There are several reasons as to why managers choose to come here and why they don't. Firstly, there are obviously the business-related reasons, particularly during crisis you need to be close to your clients. Switzerland in general, and Geneva in particular, are important allocators to hedge funds, and it is not a bad idea to be close to your investors. Generally speaking, you are either closer to your investments or you are close to your clients. When everything is fine, you can probably afford being a little bit away from your clients, but when things are turning out badly, you need to communicate and to some extent over-communicate - depending on the type of the event.

Secondly, Switzerland has well established pension funds. Spontaneously, most people would associate Switzerland, Geneva, Nyon etc. with the fund of funds' industry. But Switzerland also has a sizable pension fund market in Europe.

Therefore, several managers like us want to be specifically close to this pension fund community. This can be seen as a sign of commitment to the market by some institutional investors. While funds of funds for example, might spend significant time traveling abroad to meet with managers, pension funds do not, they need you to come over to them. Investing in the hedge fund is not their daily top priority, so you need to adapt yourself to their agenda.

Many pension funds use funds of funds as advisors. As there are many funds of funds in Switzerland, being based in this country means that you can be both close to the pension funds as well as their advisors.

Thirdly, there are personal motivations. Most people I've come across who moved to Geneva, had already made a career in other locations, like London, and were looking for a suitable location that enabled them to strike a balance between an interesting job, a family life and out-door activities.

Taxes can obviously be a reason, but for most people it is not THE most important reason to move here; if you live in London, the marginal tax relief isn't the single factor that will make you want to leave your family, your friends, or the places where you like to go to.

As for traveling, I travel a lot, every week, and I do think that actually Geneva is handicapped. Obviously, finding regular and suitable flights to the classical destinations like London-Frankfurt-Paris is easy. Try to book flights to the Nordic countries and you'll notice that the flexibility is significantly reduced, not to mention destinations outside the European continent.

As for recruitments, individuals who have moved to Geneva have probably found a good balance between their professional and personal interests. But looking at the situation from an established firm's perspective and the picture looks immediately very different. If you want to hire 10 people for your back office, it is not easy to get those candidates rapidly. That is the reason why we see most managers - with very few exceptions - who have moved their business here, have moved that part of the business that includes mainly the client facing activity, but not their operations. Anyway, the hurdle is too high for moving a major part of your business in terms of housing, location, finding recruits. What happens then if your staff defects, how easily is it to replace people?

As for recruitments, individuals who have moved to Geneva have probably found a good balance between their professional and personal interests. But looking at the situation from an established firm's perspective and the picture looks immediately very different. If you want to hire 10 people for your back office, it is not easy to get those candidates rapidly. That is the reason why we see most managers - with very few exceptions - who have moved their business here, have moved that part of the business that includes mainly the client facing activity, but not their operations. Anyway, the hurdle is too high for moving a major part of your business in terms of housing, location, finding recruits. What happens then if your staff defects, how easily is it to replace people?

Jamil Ismail



Joe Taussig

One of the subtleties in this is actually Malta. I think more UK managers have moved to Malta in last year or two than have moved to Switzerland. Ironically, Custom House which I always thought of as an Irish company has moved its headquarters to Malta. The CEO of one of our banks sits on the boards of at least five hedge fund management companies that I know of and the cumulative assets for those companies are north of \$20 billion.

Essentially they move mostly operations and the trading desk to Malta the portfolio manager remains in London does not leave his family, friend, the kids do not uproot from schools etc, but they take advantage of the EU and a 5% income tax rate, and a good tax treaty. I believe that if the revisions of the tax system in the US continues to harmonize dividends and capital gains, a significant number of US managers, abetted by Kinetic Partners, will do the same thing into Malta, but not here.

Eric Bissonnier

The EU is about 8 kilometers from here and if that country that is 8 kilometers from here was smart about the incentives that they could put together, you could actually have an asset management industry developing nearby. Even though that requires a bit of adjustment, it is actually easier than going to Malta from here.

Jamil Ismail

Regarding the traffic, I totally disagree. I had worked in other major European cities before I moved here. I thought driving to the office in Geneva would be relatively fast, but it takes you an hour during rush hours, like in any other city.

Coast Sullenger

I worked in the private banking sector for about ten years at Lombard Odier and the state should try to promote the asset management business, because there is so much pressure on the private banking sector right now, and there are a lot of professionals who have a good formal education. But there is an enormous potential pool of talent here and albeit that talent is more expensive and comes with more cumbersome social package than what you normally find in New York or London, that talent is here and it needs to be developed. Here is really a natural place for the asset management industry.

accurate

professional reporting service

No wonder that each week, Opalesque publications are **read by more than 600,000 industry professionals in over 160 countries**. Opalesque is the only daily hedge fund publisher which is actually read by the elite managers themselves



Opalesque Islamic Finance Briefing delivers a quick and complete overview on growth, opportunities, products and approaches to Islamic Finance.

Opalesque Futures Intelligence, a new bi-weekly research publication, covers the managed futures community, including commodity trading advisers, fund managers, brokerages and investors in managed futures pools, meeting needs which currently are not served by other publications.

Opalesque Islamic Finance Intelligence offers extensive research, analysis and commentary aimed at providing clarity and transparency on the various aspects of Shariah compliant investments. This new, free monthly publication offers priceless intelligence and arrives at a time when Islamic finance is facing uncharted territory.

Alternative Market Briefing is a daily newsletter on the global hedge fund industry, highly praised for its completeness and timely delivery of the most important daily news for professionals dealing with hedge funds.

A SQUARE is the first web publication, globally, that is dedicated exclusively to alternative investments with "research that reveals" approach, fast facts and investment oriented analysis.

Technical Research Briefing delivers a global perspective / overview on all major markets, including equity indices, fixed Income, currencies, and commodities.

Sovereign Wealth Funds Briefing offers a quick and complete overview on the actions and issues relating to Sovereign Wealth Funds, who rank now amongst the most important and observed participants in the international capital markets.

Commodities Briefing is a free, daily publication covering the global commodity-related news and research in 26 detailed categories.

The daily **Real Estate Briefings** offer a quick and complete oversight on real estate, important news related to that sector as well as commentaries and research in 28 detailed categories.

The **Opalesque Roundtable Series** unites some of the leading hedge fund managers and their investors from specific global hedge fund centers, sharing unique insights on the specific idiosyncrasies and developments as well as issues and advantages of their jurisdiction.

OPALESQUE

www.opalesque.com

