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Opalesque Round Table Series '12

ZÜRICH

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Editor’s Note

Participant Profiles



(LEFT TO RIGHT)

Andrew Frankish, Markus Fuchs, Ernesto Prado, Jeffrey Haindl, Max von Bismarck, Dr. Urs Ramseier, Joe Taussig, Juan Martini

Introduction

Max von Bismarck
SkyBridge Capital

My name is Max von Bismarck, I am a Partner and the CEO Europe for SkyBridge Capital. Before joining SkyBridge I spent six years as Global Head of Investments for the foundation of the World Economic Forum.

SkyBridge is a research driven alternative investment firm with approximately $6.7 billion in assets under management or advisory as of September 30, 2012. We cover a whole range of investment solutions in the hedge fund space and run two large multi-strategy funds of hedge funds. We also provide hedge fund advisory solutions and offer customized separately managed accounts.

Our headquarters are in New York and about one year ago we opened our second office, our European headquarters, here in Zurich. Both I personally, as well as the firm, received a very warm welcome in Zurich, and we are very happy to be here.

My firm also organizes a large conference known as SALT (for SkyBridge Alternatives Conference) in Las Vegas, and we just hosted our first SALT conference in Asia, in Singapore, which launched with over 1000 participants.

Dr. Urs Ramseier
Twelve Capital

My name is Urs Ramseier, I work for Twelve Capital. We founded the company two years ago here in Zurich and have grown the assets under management significantly since then. We are 15 people and focus on insurance related investments. We do ILS (Insurance Linked Securities), catastrophe bonds and we also run a fixed income strategy in the area of subordinated insurance bonds. All our staff either come directly from the insurance industry or they were analysts covering an insurance sector.

Joe Taussig
Taussig Capital

I am Joe Taussig. Our company partners with hedge fund managers to create banks and insurance companies where the hedge fund manager manages all of the investable assets. The prototype for this is Warren Buffett. One of our best known companies is Greenlight Capital Re, which has over $2 billion in assets.

Ernesto Prado
Ayaltis

I am Ernesto Prado, responsible for investments at Ayaltis. Ayaltis is a small boutique fund of funds, peculiar in the sense that we are backed by family offices. We launched Ayaltis two weeks after Lehman Brothers collapsed after selling our interests in a large fund of funds in 2006, prior to the subprime crisis. We used the proceeds to re-invest at the bottom of the current market cycle. We have just received awards as the best performing fund of funds over the last three years and as well as the best performer in 2011, a key “vintage” year.

I used to be a proprietary trader at Salomon Brothers where I restructured the LTCM portfolio for Salomon in 1998. After that I became the equity-linked correlation trader for Citigroup where I had to deal with all kinds of toxic assets.

Juan Martini
Eurex Exchange

My name is Juan Martini, I am responsible for institutional buy-side customers at Eurex Exchange in Zurich. Prior to joining Eurex I was a derivatives trader for two decades.

When we launched the Swiss Derivatives Exchange SOFFEX in 1988 in Switzerland, we were among the pioneers in electronic trading. In 1998 we merged with Deutsche Terminbörse transiting into Eurex, which is now the leading derivatives market in Europe. Since then many liquid benchmark products that every investor is using today were launched. Amongst others we offer futures on the EURO STOXX 50 and the German government bonds, both of which are important proxies for the investment community.

Besides Eurex' trading offering we also provide clearing services via Eurex Clearing, one of the globally leading CCP clearing houses and an innovator in risk management. We continuously expand our services in line with the requirements of the regulators and the demand of our users.

At the moment Eurex is launching a clearing solution for interest rate swaps, with which the sell side has the opportunity to do their business much more efficiently. By combining such activities with the listed derivatives business our customers can optimize margins and reduce their costs. Furthermore, we have a great variety of products in other areas, of which the most important asset classes are equity, equity index and fixed income derivatives.

Andrew Frankish
IDS Group

I am Andrew Frankish, I head up the IDS Group's European operations. IDS is a Fund Administration company with our head office in South Africa, and we set up our European subsidiary in Malta in 2010.

IDS was started at the beginning of 2002 in Cape Town, so the Group has been around for almost 11 years now. Since inception we have experienced considerable growth in the South African market, predominantly in the alternative investment space, and the decision was made to expand into Europe. This was due to a number of reasons driven by us internally as well as our South African clients looking to us to provide administration services to their funds in Europe.

Coming from Africa, Malta can appear small from the outside, but once on the island you quickly realize that it is an efficient and competent place with a fast expanding financial services industry. Over the two and a half years since our launch in Malta we have seen satisfactory growth and things don't seem to be slowing down.

Markus Fuchs
Swiss Funds Association

My name is Markus Fuchs, and I work for the Swiss Funds Association SFA, a trade body for funds and asset management here in Switzerland. Before joining the SFA I was heading the investment fund business at Swiss Life with offices in Dublin, London, Lugano and Zurich, and then was Head of Product Management Hedge Funds at UBS. Throughout my professional career I have been in contact with the SFA where I represented Swiss Life and UBS at the association in various working groups. Hence it was a logical step to take the decision to join the SFA on a full time base to support Switzerland and its asset and fund management industry.

Jeffrey Haindl
Falcon Private Bank

My name is Jeff Haindl. I work for Falcon Private Bank, where I am responsible for the bank's product strategy. Prior to joining Falcon, I was running the fund of funds business at Standard Chartered in New York.

Falcon Private Bank is a Swiss private banking boutique with strong links to emerging markets. It is owned by Aabar Investments PJS, a global investment company which is ultimately majority-owned by the Government of Abu Dhabi.

The bank is headquartered in Zurich with offices in Geneva, Abu Dhabi, Dubai, Hong Kong and Singapore. At present, we have over 300 employees and manage global total assets worth $12.5 billion and are growing steadily in our core markets. Our net new inflows in the current year have exceeded the billion dollar mark.



Eurex Exchange's new trading architecture: More choices, greater performance, Eurex reliability.

Eurex technology sets global industry standards in speed, innovation and reliability.

This year we will introduce a new trading architecture for Eurex Exchange that will revolutionize how market participants access market opportunities.

Designed in partnership with exchange participants, the new trading architecture aims to enhance performance across the board, including reduced latency and increased throughput.

The architecture also features innovations to the all-important "back end" of capital market technology, including:

- Greater system flexibility, allowing for reduced time-to-market when introducing new financial products and new functionality.
- Improved functionality, including enhanced calendar spreads and user-defined strategies.
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All this means a more dynamic and responsive platform for trading more than 1,700 products from around the globe – including futures and options on benchmark indexes, leading fixed income derivatives and access to one of the world's most attractive markets.

Technology that delivers a world of opportunity.

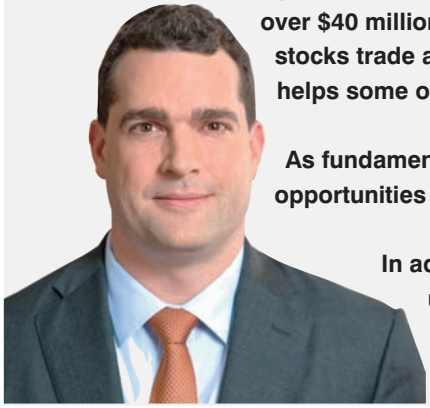
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Eurex Exchange is a member of Eurex Group.

Matthias Knab Jeff, can you share with us what you are doing with over one billion dollar of inflows? How do you invest in this environment, where do you see opportunities?



Jeffrey Haindl: We have seen a lot of interest in gold equities. We have recently teamed up with John Hathaway from Tocqueville Asset Management and operate a large gold equities fund that experienced good inflows - over $40 million just over the last two months. We see great opportunities there as gold mining stocks trade at big discounts to gold. Central banks around the globe keep printing money, which helps some of these real-asset oriented strategies. People look for a safe haven.

As fundamentals in most emerging markets keep improving we continue to see interesting opportunities in high yield in emerging markets in general and in the Mena region in particular.

In addition, we see a lot of demand for insurance linked strategies as it is one of the few uncorrelated asset classes which in addition offers inflation protection. We also recommend other uncorrelated strategies such CTAs and volatility based strategies as a hedge for some of the riskier portfolios.

Regarding hedge funds, we see very little interest and not a lot of inflows. Investors continue to prefer the more liquid strategies, which has created interested opportunities in less liquid hedge fund strategies and private equity.

Matthias Knab Who else wants to comment on the opportunities you are focusing on right now?

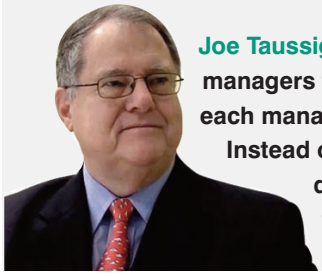
Joe Taussig: We have identified 14 fund managers, who have come into the reinsurance business with at least $250 million. We were involved in four of them, which is probably more than anyone else. Launching is really difficult and we have spent many, many, more man months on many, many, more projects that failed to launch than successfully launched. You only read about the successes.

The reason they go through the pain is that the reinsurance company is almost certain to outperform the managers' funds with an identical investment strategy. The reinsurers we create are also asset gathering machines that enable the managers to gather assets from people they could not otherwise get to invest and from the premiums collected. For the manager, this means he gets permanent capital which anybody who had drawdowns in 2008 deeply appreciates.



When you look at the investors of Greenlight Re or Third Point Re, you will find investors who would never invest in a hedge fund, but they will invest in a reinsurance company that has its assets managed by a hedge fund manager. Third Point raised $390 million from private equity funds that would never invest in a hedge fund.

Greenlight Re., which is publicly traded, counts mutual funds, pensions, endowments, and individuals as investors. Pensions and endowments often have investment restrictions and can lose their tax exemption in the US if they invest into a domestic fund, but they can own stocks of such a reinsurer. Offshore funds might also have ERISA issues under some circumstances.



Joe Taussig: We have received regulatory approval for a new platform that will now allow smaller managers to come into this business. We provide the team to operate the reinsurance business, and each manager will be having his dedicated reinsurance company for which he will manage the assets. Instead of having to personally put in anywhere from $50m to $100m as the other managers have done and making financial commitments to the reinsurer's management, they now can come in for as little as $1 million of capital.

This $1 million is the legal minimum requirement, and you will probably not be in a position to attract a lot of external capital if you only put up one million. Nevertheless, already half a dozen private equity funds have indicated to us that they like the model and want to see the deal flow. We believe the first manager on this platform will go from about $60m to a quarter of a billion of assets in less than a year.

Dr. Urs Ramseier: We are enjoying great interest and strong inflows in our products. We have also observed that private banking or private clients tend to be very risk averse at the moment, however institutions like pension funds are really keen on the yield because they need it to cover their liabilities.

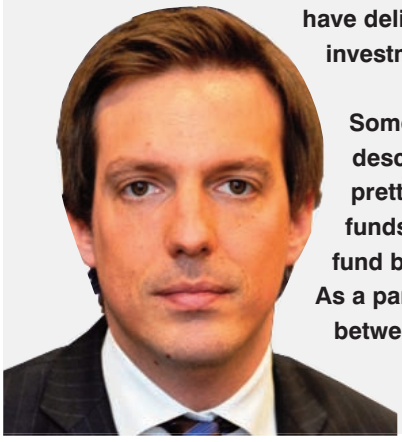


From our perspective, 2012 so far is a perfect time to raise assets. These pensions can't really invest in treasury bills because of low or even negative interest rates so called risk free assets are currently offering. Pension funds need higher yielding assets that ideally are uncorrelated with other asset classes such as Insurance Linked Securities (ILS). We have a very positive outlook and believe this is one of the best environments ever to raise assets in the institutional market if you have the right product with controlled risk.

Also in fixed income, our second strategy, we have raised a good amount of assets this year because the spreads are high. The strategy yields above average corporate bonds spreads, and also here we find investors switch from treasury bonds into something which offers better return.

Again, we found that at this time the private clients are focused on safety first. However, pensions are forced to invest into different strategies, and if a manager can come up with good ideas and can demonstrate that they master this investment, that is a very interesting proposition for the institutional investment market. We believe that this environment will remain favorable for some time and we continue to focus on institutional clients rather than private clients.

Max von Bismarck: SkyBridge is pretty positive as well, over the past 18 months our fund of funds' assets have grown by more than $1.5 billion. As we are all aware, the fund of funds industry as a whole is in a transition or consolidation process, and we tend to think this is actually very healthy for the industry and that those funds that have delivered value to their investors, who have the infrastructure, the systems and the investment talent are going to come out stronger as a result.



Some firms have already evolved beyond the 1.0 fund of funds model, which we would describe as running a super diversified portfolio of 50 to 100 funds that are evenly and pretty statistically distributed across all hedge fund strategies. The original 1.0 fund of funds model will be challenged because investors are basically getting an index or hedge fund beta, and we believe this is of decreasing value to investors in the current environment. As a part of the change I described, we believe there will be a bifurcation in the industry between beta and alpha providers.

Looking at the markets, we believe that post crisis we are now in an era of high volatility where risk on/ risk off action will be staying with us for quite a while, and we could have a longer discussion why that is.

Max von Bismarck: Regarding the key investment opportunities, as I mentioned we expect risk on/risk off action to continue, and therefore our main positioning is with cash flow generative strategies that do not purely rely on mark to market appreciation. For example, over the past two to three years we found the U.S. mortgage markets particularly attractive. One of the largest themes in our portfolios is the prepayment-sensitive MBS markets, a super liquid $7 trillion market with very low hedge fund penetration of probably less than 1%. The market is mainly dominated by long-only mandate constrained players. We saw very interesting opportunities in terms of the carry streams and if we look at the last two years, this has been a major uncorrelated strategy that also generated attractive returns for us.



A theme we have ramped up in the mortgage space over the past years is credit-sensitive MBS, something we had not touched for quite some time since we were short sub-prime during the crisis. However, now after the significant selloffs, this market looks much more attractive.

One thing to keep in mind regarding the MBS space is that with QE3, where the Fed is essentially buying $40 billion of MBS securities monthly, and if you take into account the cash other investors are putting into that market, it's probably more like $65 billion of investments each month, which is probably more than the entire hedge fund investment in the MBS market. These inflows are now shortening the cycle for this MBS theme. Before QE3, we probably thought it will continue to run at least two more years, however, now we have started to reduce positions in certain parts of the MBS space. We have some exposure to distressed corporate credit as well as event-driven equity where we see a clear catalyst. At the moment, we are still not that excited by long-short equity and have only a very limited exposure to this strategy.

The other strategy for us with a very low exposure is directional macro. Traditionally, with all the macro movements in the markets, you would think that should be an interesting environment for macro managers; however we have not seen that managers were able to execute on them. It rather seems that the macro managers' traditional play book is just not working out in this environment, and I believe this is also one of the reasons why we have seen some of the best macro managers returning capital to their investors.

Ernesto Prado Max said risk on/ risk off is here to stay, and I agree with that. One could almost say that in 2007, 2008 God has come with a big broom to clean away all sub-standard, generic beta-driven managers and "forcing" consolidation. Today that consolidation continues and not all managers will able to successfully navigate through 2012 and beyond. If you cannot navigate and perform through the current erratic volatility environment, you will end up having a very hard time going forward. And the higher you operate up in the risk premium class assets like equities or corporate bonds, the more irrational the volatility and your performance.

Ernesto Prado: A good number of high risk premium asset class managers were just lucky when Bernanke came in with the next round of QE3, lifting the equity markets to more than 15% so far this year and helping deliver "QE-subsidized" performance. But without that QE, you would not have seen such gains neither for corporate bonds nor for equities. For that reason, during the next couple of years, we prefer to invest into the lower risk premium assets while still trying to anchor ourselves as close as we can to the printing power of Bernanke's and other central bankers' printing presses - the same mortgage asset classes we targeted since December of 2008 and which have strongly helped our returns be fantastic.

I agree nevertheless that with QE3, Bernanke is actually taking the pie away from half of the mortgage market. A lot of the relative value carry you were able to do before is now very compressed and gone, there is no more opportunity for those managers or, if it exists, it has become very dangerous. That compression happened as soon as he announced QE3, even before he actually deployed one dollar, but at the same time this opened the door for a whole set of opportunities within structured credit. Having said that, we are not that keen on credit simply because we do not like to extend credit to anyone in the current environment. Coming from Salomon Brothers, I was taught to never buy a bond long because it is a stupid trade with limited upside and infinite downside.

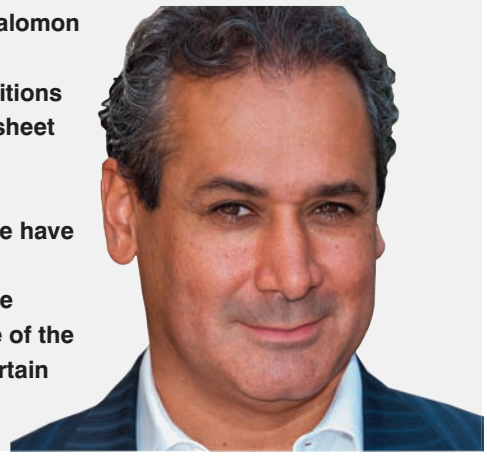


So again, in the current environment where developed economies have a tremendous debt overhang, I would not want to lend anybody money, no matter how great this subprime rally has been over the last month. But if you are still able to work with a kind of mortgage derivatives scalpel, capable of using it like a neurosurgeon, so to speak, you can still find fantastic pieces of cake left there for the next three years, particularly because of what Bernanke is doing.

For us, that means we have shifted all our positions. We kissed goodbye temporarily to the managers who helped us win the fund of funds awards for the last three years, and now we are invested in completely different sub-segments within the space. At this time, I chose not to disclose in detail what we are doing; only that we remain in mortgages but a different trading direction.

We also agree that macro is challenged. I believe it is very hard for the discretionary macro trader to assess the current market – nobody can have that "magical" crystal ball that lets them read the mind of people like Draghi, Merkel, and so on.

Ernesto Prado: But we also found another aspect of the macro side that is working pretty fantastically well for us, we call that part the "fixed income FX octopus". Imagine an octopus stretching out his tentacles all around, and on the right hand side you have all the different yield curves of developed economies. All the major markets like the U.S., Europe, and Japan. These, so to speak, yield curve tentacles are "collapsed" weighed by heavy debts and aging populations forward. On the other side of the octopus are the yield curve tentacles of Brazil, China and all other developing economies that are in a very different cycle. Now, the actual body of the octopus represents all the FX crosses that link the two sides. That is what the Salomon Brothers' proprietary desk used to trade. We would trade assessing whether governments and central bankers were doing a good or bad job, and taking positions accordingly. We would assess if they were mismanaging the country's balance sheet to the point of insolvency or not and take a view on it.Sounds familiar?



That trade is alive and well. In fact, a couple of former trading colleagues of mine have decided to come out of retirement. They are coming back to be part of the party, because there are a few things to be done. So we believe that the markets will be tremendously difficult, the problems are not over, but they present us with some of the most fantastic training opportunities. However you need to be really sharp in certain asset classes to benefit from them.

Juan Martini: Considering several phases of crisis during the past 25 years, those negative events badly impact the market, but always in a different manner. 1987 was a typical sample of market sales panic. Exchanges were not as regulated as they are today. Numerous market turmoil and crashes occurred until 2008. Since then, some volatility measures and indexes were created to support the management of such situations.

Investors began to use volatility measures recently as a risk gauge. Hence, Eurex Exchange launched VSTOXX Futures and Options that can be used as a risk proxy, negatively correlating to the EURO STOXX 50 Index, or even as an arbitrage instrument versus U.S. volatility indexes. Year-over-year the volume in these products at Eurex Exchange grew +145%.



Addressing the buy-side, what are the opportunities in Switzerland? There are surely different challenges which depend on the type of asset managers. In every situation, but especially after Lehman's default, we observed a very strong domestic demand for counterparty risk mitigation.

If investors have to add some risk back to a portfolio, then they want to emphasize on such specific risk, combined with some features of diversification or return enhancement. Nevertheless you need to avoid unwanted risks, for example legal and operational risks. This is where derivatives exchanges and CCPs may significantly contribute to market safety.

Pension fund managers have to deliver certain return for retirees in 15, 20 years but returns remain very low in the short-term. As most of them are underfunded and highly regulated, their allocation is typically very conservative and hence suboptimal. Pension funds structures are quite fragmented and the level of investment education diverges largely from very sophisticated to quite low. Our contribution lies in both investor information and education, while emphasizing safety and cost efficiency.

Juan Martini: The ability of insurers was impaired through the application of the solvency ratios. Especially for tied assets, full segregation is mandatory. Therefore, a domestic solution for achieving portability of assets is an ongoing concern. However some regulatory improvements need to take place in Switzerland to ensure that such investors will not be prohibited to use listed derivatives, as higher costs might occur, if investments would be performed, for example in other countries regulated under ESMA's / EMIR rules.



Local regulatory pressure may also increase on fund managers, especially hedge funds. But wealth per capita in Switzerland is very high, meaning there is a high density of high-net worth individuals which will still attract new fund managers and investment vehicles. After Madoff's case, we observed high redemption rates and a significant shift from funds of hedge funds to single hedge funds.

Matthias Knab Andrew, where do you see growth in your fund administration business?

Andrew Frankish: We are seeing a lot of flows into North Africa, which I think is a consequence of us being one of the largest providers of fund administration in Africa, and the fund managers we deal with having a heavy exposure and understanding of the African markets. We have a number of South African based fund managers launching funds through Malta in order to gather assets from a wider pool than they would be able to from South Africa and to take advantage of developments through Africa.



This is supported from the investor side, with some decent flows coming from pension funds. New regulations in South Africa have allowed for increased flows of South African pension fund money into the alternative space. There is also an interest from investors outside of Africa wanting to get the exposure to developing markets, and through funds with African fund managers who understand the space seems to be a good way to do that.

Ernesto Prado Traditionally investing or trading Africa was more or less trading South African, because there was nothing else. You referred to North Africa just now, can you share with us how Africa has been developing lately, given the arrival of the Chinese and others who started to become more active on the continent?



Andrew Frankish: Africa can provide great investment opportunities. For example, one of the smaller managers we launched in August of last year returned over 35% net in his first year. So the returns are there. The returns are generally coming from the industries that one would expect from developing nations. As the continent develops, there are growth markets in healthcare, pharmaceuticals, infrastructure and telecommunications. South Africa still has decent returns to be made, and together with the north of Africa the continent provides attractive investment options and diversification.

Max von Bismarck We have seen increasing amounts of capital flowing into Africa, particularly on the more illiquid side through private equity opportunities. I believe one of the challenges on the more liquid side is the fragmentation of the exchanges. I am curious if you see any developments regarding further integration of African exchanges and more market transparency in general?

Andrew Frankish We find the majority of African exchanges we deal with are pretty easily accessible and priced via normal means. We haven't experienced much of an issue with the exchanges in the regions our managers are trading, but that experience is obviously limited to the regions that we are exposed to.

Jeffrey Haindl: Our bank is also active in Africa and particularly in the MENA region. You have to keep in mind that a lot of frontier and emerging markets and particularly the MENA region have much more of a fixed income than an equity culture. At the moment, emerging markets do much better than developed markets, a fact that also Ernesto referred to when he introduced us to his metaphor of the octopus and the tentacles. Generally speaking, emerging markets have improved while developed markets have deteriorated. Capital is flowing to where it is treated best and where the best opportunities are found. As a result, the liquidity of emerging markets has improved over the last few years and we expect this trend to continue.



Matthias Knab Coming back to Switzerland, where is the country heading with its regulations, what is the strategy for the financial industry here at large given the global push for more regulations? How is Switzerland positioning itself given the new global frameworks like UCITS, AIFMD, and so on?

Markus Fuchs The UCITS framework started to develop some 20 years ago, and Switzerland took over many parts of the UCITS regulation. However, there was no need for a full implementation because the focus here in Switzerland has been on the wealth management and the private banking side rather than on the production of Swiss domiciled funds for the retail market. However, Swiss funds – usually set up as "special funds" outside the UCITS framework – is a very important and still growing segment mainly for institutional investors such as pension schemes and insurance companies. In addition, many Swiss banks launched UCITS products in Luxembourg or Ireland which were then re-imported into Switzerland as substantial tools for the Swiss wealth management business.

That said, we now have the Alternative Investment Fund Managers Directive which slightly changed the perspective for two reasons. For one, the original background of AIFMD was not the non-UCITS market, but rather a directive pointing at the hedge fund industry. After the financial crisis lawmakers and politicians found issues with – although in a few but very popular cases – the excessive remuneration of some hedge fund managers. Moreover, there was the Madoff case. Those two elements basically started to drive the political agenda of Germany and France, and then, step by

step the whole directive ended up covering actually all collective investment schemes not set up as a UCITS fund.

Markus Fuchs: **Today, in Switzerland we are more than ever in a position that in order to get potential market access to the European market, we need to adapt our investment fund law, i.e. our rules have to be in line with the European regulations. Now, AIFMD says in order to manage collective investment schemes, you have to be supervised by an official supervisory body, which is the Swiss Financial Market Supervisory Authority FINMA here in Switzerland. The required supervision for fund managers was actually the trigger for Switzerland to implement major parts of AIFMD in order to be able to access our most relevant distribution countries outside or surrounding Switzerland in the EU: Germany, France, Italy and Spain are the largest international markets for the Swiss asset management industry, and therefore there was a need to amend the so called Collective Investment Schemes Act (CISA), which is basically our reaction on AIFMD. Moreover, the competitiveness of Switzerland as a production location for collective investment schemes should also be strengthened in specific areas.**

The CISA is a product law, covering all aspects of managing and distributing investment funds. However, it will not be sufficient to have just the amended CISA alone, we will go further and develop a framework that covers all legislative aspects of asset management and distribution, and not target each product category, such as mutual funds individually. I don't think we should consider certain individual aspects of a fund or a structured product or a life insurance in a fundamentally different way, since ultimately these are investment products wrapped in different ways. Hence, the regulation should take a more holistic approach looking at asset management, i.e. the investment content and the targeted investor base rather than the different "wrappers".



So probably in the coming years we can expect more comprehensive new legislation coming out of Switzerland, which is in German called the "Finanzdienstleistungsgesetz". This regulation is supposed to be implemented in 2015 – at the earliest. It will cover the value chain of investment products, in a much broader way and not just focusing on collective investment schemes anymore. This will hopefully be a big step forward. As I explained, the current revision of the Swiss Collective Investment Schemes Act has largely been triggered by AIFMD, but this will not be sufficient any longer going forward. Also, if you think about it, in order to stay ahead in this race, Switzerland needs to do take additional, thoughtful steps. We cannot simply react on what other regions like the U.S. or the EU have put into law.

Matthias Knab If I am a non-Swiss or a non-EU based fund, say I am sitting in New York and I want to market into Switzerland, can I still do that?

Markus Fuchs: **Non-Swiss or non-EU based funds will still be able to market into Switzerland. Most Swiss banks and independent asset managers offer so-called discretionary asset management mandates where the decision to invest in certain products is delegated by an individual or an institution to an asset manager. Such discretionary asset managers are considered as qualified investors, and hence for such mandates non-registered funds can still be used going forward.**



There is a change in the new CISA where the client has the option to opt out of certain asset classes or instruments like hedge funds or real estate. In fact, this has all the time been possible, but now the banks are required to use forms where the client can explicitly opt out of certain investments.

Another change is that the so-called advisory clients, i.e. clients who have not delegated the investment decisions via a discretionary mandate to a financial service company have to be qualified investors in order to invest in non-registered funds. Unfortunately the definition of a qualified investor can differ from country to country. In Europe the MIFID rules says that qualified investors have to demonstrate a certain wealth, namely 500,000 Euros. Moreover, they have to show a certain knowledge of financial issues and investing, and the third criteria is a certain number of transactions.

What is proposed now in Switzerland is that we will have similar rules, i.e. you need to have a certain amount of financial assets and in addition you demonstrate that you have a certain investment qualification. I would expect that if you have been working for a bank, or an insurance company for example, this could be a good base to qualify you as a qualified investor. I believe this is by and large a reasonable approach, because ultimately only the retail client needs really comprehensive protection whereas qualified investors can be - within limitations - expected to take care of their own.

Ernesto Prado We have had the "pleasure" to try to adhere to all of those new regulations AIFMD and regulators like FINMA or CSSF in Luxembourg. I found it a bit of a challenge when regulators require one to adhere to the "new rules" without actually defining them. For example, one of those rules relates to risk management. Do you have any idea or update if since I boarded my last flight three days ago anything changed, have they come up with a clarification?

Markus Fuchs: Indeed, how you really define risk management has not been clarified neither in Luxembourg, Ireland, Switzerland or Malta. I have indeed observed that on the political level mainly in continental Europe people can come up with new ideas on any given day what is or could be meant by risk management. What's disturbing is that very few of those ideas have actually been thought through, namely on the practical consequences.

As we know, active fund management has two core functions, one is portfolio management and the other one is risk management. In Switzerland we go into the direction that at least one of those two functions need to be fulfilled in the asset management company. If you are an asset manager and you delegate both portfolio and risk management outside, then - in all honesty - it is unlikely that you have a compelling case as an investment manager.



Now, let's look at what risk management really means. Do we talk about portfolio risk management, do we talk about enterprise risk, or is the focus more on operational risks? In our view, fund regulation should mainly address the risk management related to asset management. Since as an owner of a company, as a major shareholder, or as a director of an asset management firm you have a fundamental interest that the enterprise risk is managed in the most appropriate and effective way.

One issue on risk management often asked by regulators is its organization within a fund management company. On the portfolio management, personally I believe risk management is a support function helping the chief investment officer who is ultimately responsible for the investment performance. That said, if the regulator requires independency of the chief investment officer and the chief risk manager, it becomes a bit tricky how to define the duties and the segregation of those two. These questions definitely require further clarification.

Ernesto Prado So the issue is still open then… Oh well.

Markus Fuchs Yes, this is still open. Also in Luxembourg and Ireland things are not as easy any more as they used to be.

Markus Fuchs: FINMA in Switzerland is still following a kind of a "case by case" approach when licensing financial firms, which can be extremely burdensome. It would indeed be easier, if FINMA would take a rather rule based approach.



Generally, in Luxembourg, Malta, or the Caymans the respective regulators have defined certain rules, and if you fulfill those rules you get the license. For the moment this is different in Switzerland. Going forward however, I tend to believe most other countries, and mainly the major European production centers such as Luxembourg and Ireland will take a similar approach as Switzerland.

To get licensed will become more difficult. The EU regulators clearly require substance, a robust organization and a clear business model. These new requirements become part of the approval process. In Switzerland when you talk to the FINMA, I believe it is extremely important that they understand your business model. You should not hide anything and really explain and convince them that you have a solid business case. As I said, the Luxembourg model was different, but they have moved into the same direction, so a kind of convergence is about to happen.

Andrew Frankish The Maltese regulators generally had a very open "comply or explain" type model with licensing. Obviously that is not with the entire sphere of license requirements, as there are those that one has to comply with to be licensed and there is no debating these. However, if one is able to provide reassurances and motivations for divergence from certain requirements, the regulator will generally take this into consideration with the application. From the fund manager licensing side, the regulator is generally stricter, looking for the applying entity to have substance in Malta, and the skill set necessary to provide the oversight needed within a fund management entity.

Dr. Urs Ramseier What concerns us a bit is the fact that the new regulation makes it very difficult for new fund managers to build their business. Maybe until two or three years ago it was much easier. Talented investment professionals were able to start a fund management business with 20 or 30 million and if they produced good performance they got inflows into their funds. Those times are over because the hurdles and also the cost for regulation have gone up significantly.



Dr. Urs Ramseier: Today, an asset manager needs a risk manager, a portfolio manager, compliance officer, and so on. The barriers of entry are now much higher. The worry is that these developments will in the end kill the single fund management industry in Switzerland. Just look from where the innovation in our industry is coming from. It is not coming from places like UBS or Credit Suisse, but rather from the smaller asset managers who set out on their own. They have a good idea, create their fund and if they are successful they will raise assets and grow. This is how the innovation is happening.

Today, an asset manager needs about $1 billion in assets under management to survive in the current regulatory environment. Some people may even think to set up in their business in other jurisdictions. Switzerland has a history of driving out interesting businesses from the financial industry, starting from the Eurobond trading that ended up in London or fund management which went to Luxembourg...

Markus Fuchs I absolutely share your concerns, but I'm still optimistic. We have to keep in mind that FINMA – at least in its current set up - is a relatively new entity, it was created off the financial crisis 2008 with some senior people coming from the big banks and the insurance companies. It is a regulator that is still developing, also on the executive and board management side. But the real reason why I'm optimistic is based on a very recent experience. Some of you may have seen the first draft of the CISA which came from the Swiss Federal Finance Department in Spring this year– it was really not

workable from an industry perspective. The Swiss Funds Association SFA and other industry bodies became active and really got involved, and while the final version could still be improved, the outcome is good compared with the original draft.

We had many meetings with members of the Swiss parliament and in some cases the parliament had also a different opinion than FINMA. The parliament and most likely all of us are well aware that investor protection is one and with no doubt key element of regulation, but there are others. An aspect which is equally important is the competitiveness of the asset management and financial services industry. These are the two pillars: investor protection on the retail side and the competitiveness of Switzerland. This is also recognized by many people in Berne, although that view was not entirely shared by the FINMA.

Max von Bismarck: You could also argue that this increase in regulation is a natural process as the alternatives industry becomes more main stream. We are very much in favor of prudent regulation in our space because it hopefully also increases quality. Our firm has been registered with the SEC and FINRA for a very long time.

To Ernesto's point, it is true, particularly for internationally operating companies, that the time you spend with your legal and compliance teams interpreting how regulations might turn out in the different markets you operate in, dealing with current and the uncertainty of future regulations, just demands a lot of time and attention, particularly if you try to be at the front foot of the developments rather than just react last minute.



So again, these efforts take a lot of time, but it is obviously much harder if you are a smaller or emerging fund manager having to live with that uncertainty and bearing all the costs.

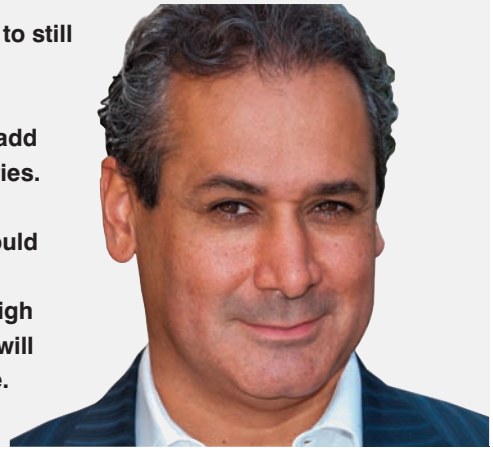
Ernesto Prado

As I said, I find myself in this Kafkaesque situation of having to comply with rules that are not defined. Let me add two significant observations at this point, the first one on the risk direction.

Ernesto Prado: When I was doing correlation trading on structured credit equity tranches, it was quite a nightmare because I ended up working with a securities lawyer on my right side and another one on the left side who were going over 150 pages for every trade. But after a while you get used to that, because all those legalities are basically consistently going in the same direction. So far we have talked about regulation in Switzerland and Europe, but if you look over the Atlantic to what the U.S. is doing with FATCA and other things, from a fund manager's perspective the developments are not really pretty, but they are here to stay. However, if you understand the ultimate logic of what is happening, it is all flowing in the same direction.

Still, we as fund managers should be able to work within a predominantly consistent and predictable regulatory environment. It's not that we don't want to be regulated, we do want a regulated environment. But it has to be an intelligent regulation that allows the managers to still do their performance revenue generating, wealth-producing job.

Urs mentioned before how already certain aspects of the industry or the value-add chain within finance and asset management got lost and moved to other countries. Well, I personally love living here, my children are very happy. I believe that Switzerland has very strong cards to play, but must play them carefully. So I would prefer if the regulations end up to be workable and realistic to help keep a key, prosperous alternative asset management industry in the country at a time of high historical opportunity when all developed economies surrounding Switzerland will struggle to pay back their own debts and will tend to over-tax and over-regulate.



Matthias Knab We are now talking about keeping the hedge fund industry in Switzerland, but do you remember the momentum that started a few years back where hedge funds were being wooed to leave their London operation and come to Geneva, Zurich or Zug? Are foreign hedge funds still moving to Switzerland, what is the latest here?

Markus Fuchs Historically, Switzerland has always had a liberal framework and actually welcomed financial services companies including hedge fund managers. If we are honest, hedge funds had their heyday between 2002 and 2008 for the simple reason that the MSCI did really badly in 2000 and 2001. Hedge funds provided more stable returns, and subsequently they were included in the big marketing machines of the major banks. That was until 2008 where the industry once again reached a tipping or a turning point, I think we all agree on that. But that said, there is still enough room for niche and mid-sized players to set up and grow, some of them to an even decent size. As we said, it's more the younger firms where innovation takes place.

Markus Fuchs: We still see some hedge funds moving to Switzerland, they open their offices in Lugano, Schaffhausen, Geneva, and other places which is great, because we need a certain critical mass in order to have a community.



The main reasons why those hedge funds move to Switzerland is usually not tax driven. The main reason for most of them is still the overall liberal framework compared to the U.K. or the EU. The second aspect is quality of life, something that should not be underestimated at all. The third aspect, which is probably the most crucial one, is the closeness to the investor base. You have the private banks in Geneva, France is close by, there are many institutions and insurers in Zurich, we even see another cluster develop in Schaffhausen for instance, which is very close to southern Germany.

By and large we are still optimistic that we can attract more hedge fund managers, and again in the vast majority of cases, tax is not the critical factor here. For example, Geneva has a marginal taxation rate of around 40%, and the difference to London's maybe 50% may not be sufficient on its own to convince people to move from their known environment and take their whole family to Switzerland.

Matthias Knab Historically, the private banks were one of the pillars of the Swiss financial system. What are some of the developments in this sector? Jeffrey, your bank added $1 billion of assets, I believe not everyone is growing like this at the moment, no?

Jeffrey Haindl Well, I cannot comment on what is happening with the other private banks or UBS or Credit Suisse for that matter. Thanks to our ownership we have a very good footprint in emerging markets and we benefit from the ongoing strong wealth creation in those regions.

I already mentioned that we see very little demand for hedge funds, and we have to talk about this, because there are reasons for that, mainly the substantial return deterioration within hedge funds over the last few years.

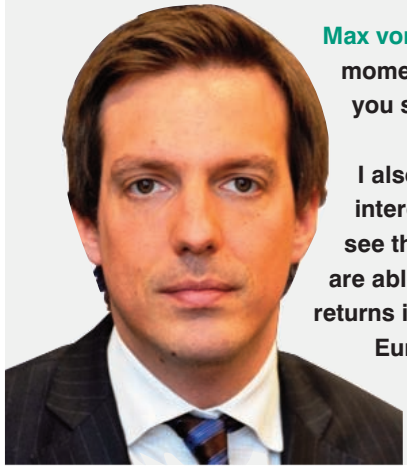
Too much money has been flowing into the hedge fund industry and alpha opportunities have diminished. In addition, the zero interest rate environment is hurting most strategies and government and central bank interventions and not market factors have been driving markets.

Hedge funds have become more of a beta play and correct me if I am wrong, Ernesto, I also believe the mortgage trade was a beta trade to some extent.

Ernesto Prado You are right, everything is beta, but you have different types of beta, and the "alpha" is to actually extract some types of beta. Please, don't ask me to define them!



Jeffrey Haindl: Fund of funds are trying to react to this changed environment by becoming macro managers or more thematic, trying to pick opportunities on their own. The bigger underlying issue is that in this zero return environment most players just cannot charge those fees and still make a positive return for investors in aggregate. This is actually the reason why we see more growth in traditional asset classes than in hedge funds, where the business has become very slow.



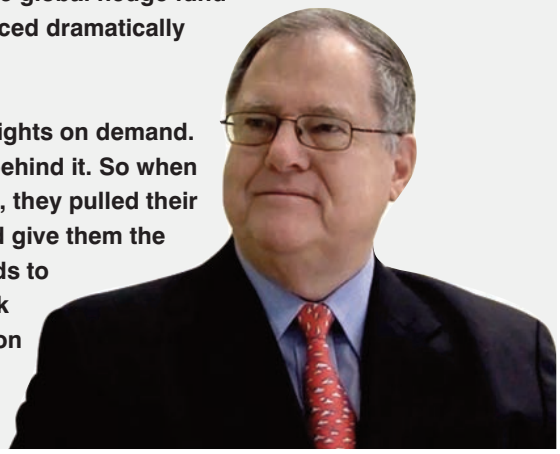
Max von Bismarck: I agree with you that a lot depends on your geography. I believe at the moment, the U.S. is a very different world, the private banking business is very active and you see huge flows into hedge funds.

I also believe that in Europe this dynamic is much more muted, but overall this zero interest rate environment can also be seen as helpful for investors as they will be able to see the bifurcation in this industry and recognize the single managers or fund of funds that are able to showcase their value proposition. For those managers capable of delivering the returns investors are looking for, I actually see a growing business, but coming back to Europe, there may be a certain time lag with those developments. Therefore, I would say that the significance of private banks as hedge fund allocators will be coming back.

Joe Taussig: In September of 2008, I worked with a big hedge fund manager and we bought a Swiss private bank just before the crisis. At that time, we paid four times book value for it. That was not as stupid as it sounds because Goldman had an evaluation on the manager of $2 billion so the $100 million premium was only 5% of the value of the manager. The hedge fund manager intended to reverse merge into the bank and float the combined group as a bank, which has a lot more value than floating a hedge fund manager.

In the last year we have been again looking at banks here in Switzerland, and I can tell you that we have never seen a single bank offered above book value. Some of them you can buy at a discount, even those with clean balance sheets and no legacy issues. That tells you they are not very optimistic about the private banking business here in Switzerland.

Prior to the financial crisis, anywhere from 20% to 30% of the assets of the global hedge fund industry came out of Switzerland. I would say that fraction has been reduced dramatically since the crisis.



One of the private banks' problems is that their clients have redemption rights on demand. Because the registered owner is the private bank, you never see who is behind it. So when the private banking clients needed cash for their families and businesses, they pulled their money out of their private banking account. The private banks then would give them the money from the bank's balance sheet and when the bank went to the funds to redeem, they may have found themselves gated, meaning they were stuck with a negative cash flow. Going forward, the Swiss private banks' situation may improve on where they are today, but I do not think things will ever be as they were before 2008.

Juan Martini I agree. Also coming from the private banking industry, I observed that in the 80s and the 90s, most banks decided to take more risk and growth of assets was the most important objective. Now apart from the too-big-to-fail problems, even as Basel III begins to be implemented, risks will be reduced. As a consequence, clearly no sustainable growth was achieved while expected return of assets slid to levels below expectations.

Juan Martini: Another observation was that risk measurement was not mastered by most investors. Participating in a family office event in 2008 I noticed that high net worth individuals were shocked about the risk of failure and how quickly markets plummeted. More and more of them felt being "abandoned" by their investments advisors as the financial situation deteriorated.



But most of the bankers were over-confident about their firms, their specialists and even their own risk methodology. Not only is there still a lack of education among investors but there is also a substantial need for implementing better measures of risk.

As we constantly reshape our own risk management standards, our target is to create better risk measures, which will help to improve the safety and integrity of the markets. Thus we are replacing our risk-based methodology by a portfolio risk management approach called Eurex Clearing Prisma.

This will allow cross-products margining between listed and over-the-counter derivatives, a more robust and consistent model for our customers, taking into account liquidity features and enhancing more stable margining. Thus, by combining products in the same asset class, the setup of a new default management process is supported.

This combined with an appropriate segregation through our client asset protection solution, which is in alignment with regulatory requirements, investors will dispose of more flexibility and in the case of a members' default of the opportunity to move their positions and collateral in a timely fashion.

Jeffrey Haindl I agree that the Swiss private banking industry is going through a transition and that the landscape is changing. However, as a boutique focusing on growth markets, we are actually experiencing strong demand for tailored investment advice and service propositions.

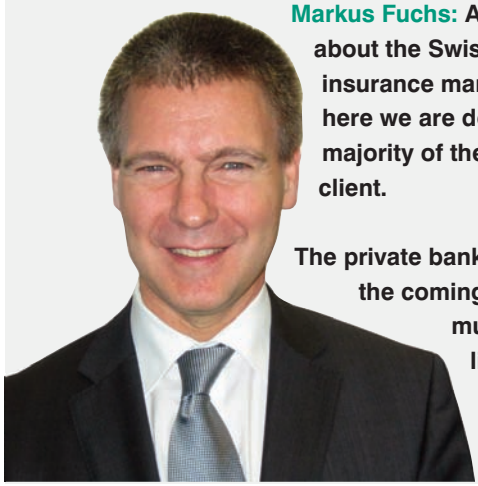
Jeffrey Haindl: The current environment forces HNWI to diversify their assets across markets and currencies. The financial crisis has validated the concept of being client-centric and being in the position of providing independent advice. We believe that a capable relationship manager can still add considerable value as a navigator for wealthy clients to look after personalized solutions. We also believe there is a disconnect between the quality of products offered at the individual and the institutional level and we aim to bridge that gap.



Ernesto Prado There are some sophisticated families that still run their businesses closely and understand that there is no such a thing as a risk free situation. Long ago, when I came to Salomon Brothers prop trading, I was told a couple of fundamental things. The first one was the risk free rate does not exist. If you ever got caught talking about the risk free rate on this desk, you would be fired. Now the world understands what that means.

If you created wealth running an entrepreneurial venture for a family over generations and the family would have to mark to market their holdings over that time, they would have experienced high volatility - 20% would be a common event in every crisis. This concept of generating a "risk free" fixed income by lending money to the government and receiving high teens in the U.S. as in the 70s is no longer here and will not come back soon for many reasons.

Luckily for us, the sophisticated families who are invested with us are very nimble, and as a matter of fact we do see a good number of decisive investors that are allocating money. In our case, I don't aim to manage gigantic amounts of capital. We have managed large amounts before and the issue then is that you can't really get away from trouble. You are "the market" and cannot move to the side without aggravating your own loses. But if you are willing to stay at around the billion dollar mark, you will be more able to navigate through the situations the markets put you in.



Markus Fuchs: Apart from the high net worth and private banking clients, we should also speak about the Swiss pension scheme market which is a $700 billion market, and then we have the insurance market representing another $700 billion. These are major amounts of money, and here we are dealing with the most sophisticated professional investor segment which for the majority of the people at our Roundtable today is probably the better target than the private client.

The private banking business in Switzerland is still very important but will be facing a few issues the coming years, and the assets of continental European clients won't be growing that much either. Mid-term, private banking may be growing stronger in other regions like Asia, Middle East, or possibly Latin America. But again, the professional asset manager should be focusing on the professional investor segment, which is very diverse and offers the more interesting growth perspective.

Jeffrey Haindl We have experienced a lot of change in the hedge fund industry over the last 20 years. In the early 90s private banks were direct investors in hedge funds. The universe of hedge funds was small, and only a small number of fund of funds were around at that time. At the end of the 90s, the funds of funds were growing and investments out of Switzerland and Europe were increasingly funneled into them. The same dynamic started to happen in the U.S., however there the funds of funds never had the same liquidity mismatches as they were built up in Switzerland.

Jeffrey Haindl: In Switzerland, people were running funds of funds with monthly liquidity while having a large allocation to funds with quarterly or worse liquidity. In addition, some of the underlying hedge funds, especially on the multi-strategy side started to add private equity deals and other illiquid strategies. To make matters worse, funds of funds increasingly started to use leverage at the funds of funds level. If in those years you went to a fund of funds awards ceremonies, you would have found that awards often went to the most levered fund of funds.



Unfortunately, in the 2008 crisis the Swiss fund of funds industry ended up having much bigger issues than the U.S. fund of funds, and that destroyed a lot of trust in the industry. The challenge to perform is the same for U.S. and Swiss fund of funds, you need to identify the alpha within the same universe of underlying hedge funds. However, the US fund of funds were more cautious by better matching the liquidity of their offering to the liquidity of the underlying funds and be relying less on leverage. As a result, investors in the US were less affected by the liquidity crisis that led to liquidations, suspension of redemptions and gates in the fund of funds industry. It is therefore not surprising that US investors are more active in the hedge fund industry.

Joe Taussig: A structural difference that exacerbated this situation is that in America the investment generally was directly made by the investor into the fund. So whatever the redemption rights were in place, it was very clear for the client. As I explained before, the Swiss banks were squeezed between being gated from the funds and having to honor their clients' demands. And even if there were no gates from the funds, a client of a Swiss private bank could pull out



money just like this while the bank still had to stick to a month or a quarter for when redeeming a hedge fund.

The other game changer was the change of the retrocession rules in Switzerland. 300+ private banks with about $5 trillion in assets and 2,000+ independent asset managers with an additional $2 trillion in assets made a lot of their profits by taking a portion of the hedge fund manager's management and performance fees (sometimes 50%), without disclosing it to their clients. Now they have to be disclosed. Many do not wish to do so and are dropping out. Others who disclose are seeing their compensation being renegotiated.

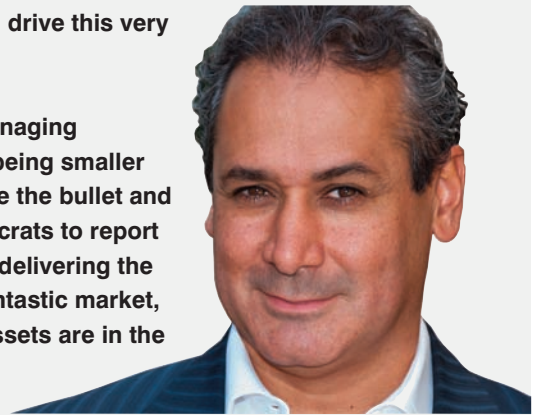
Max von Bismarck I completely agree with Jeff's observations about the fund of funds. I tend to look at these issues as both a challenge and an opportunity. The industry needs to recognize that lots of investors were disappointed by some players in the market - one for performance, and the other issue was that investors got exposed to fraud. Others ended up having liquidity issues and some transparency issues, feeling like they were caught in a black box.

I think for those reasons it is perfectly understandable that interest has come down quite a bit since 2008. It's a healthy process for the industry, and the smart guys that are still in the industry, who did not have those issues and who delivered to their investors are probably going to come out stronger.

Joe Taussig Ernesto mentioned FATCA earlier, I was surprised nobody jumped on that because I believe it is a huge problem in the making. The U.S. Treasury just delayed FATCA reporting for another six months, but the implications of that law for the global finance industry are unbelievable. It is a reporting and compliance nightmare you have to deal with if you are trading in any U.S. instrument. As I understand it, everybody in the daisy chain, all the way to the investor has to basically sign a Sarbanes-Oxley type of pledge saying that we are not tax evaders, otherwise we cannot transact U.S. securities in any way, shape, or form. Any comments on that?

Ernesto Prado: FATCA is a nightmare, and maybe I should light up a candle every weekend and hope it does not get implemented as currently drafted, because it is just not doable. I think it will be very tricky to define even what is U.S. and what is non-US across the board because the world has globalized.

Governments are eager increase tax collection because this is one of the only ways to get out of the debt their self-inflicted problems. Low interest rates, printing money and loud talk from the central bankers will just not be enough to pay the money back. I personally believe they will drive this very hard, and a lot of people will be affected or involved in that scheme.



That is also one of the reasons why we prefer to stay very small. We are managing predominantly our own money and then just for a few selected families. In being smaller one has more options, also in dealing with such regulation. We may just bite the bullet and go onshore to the U.S., and get registered there, hire a little army of bureaucrats to report whatever the authorities want us to report, so we can continue focusing on delivering the only thing that matters, wealth protecting performance. The U.S. is still a fantastic market, and we know how to make money there. In fact almost all of our invested assets are in the U.S.

Markus Fuchs: Most likely, but finally this is not clear yet, FATCA might not be such a big issue for the fund industry in Switzerland at the end.

We have very few investors, be it on the private or on the institutional side that invest directly into a fund, i.e. become shareholders of a fund, since they typically go through nominee structures of the banks where such FATCA-compliant banks will be the registered shareholder. From that point of view FATCA should be manageable. However the insurers or some of the asset managers might have an issue when investing in U.S. securities.



Joe Taussig And all the banks will have problems too.

Markus Fuchs Correct, for the larger banks there is no way around, they cannot stay away from the U.S. market.

Juan Martini: Coming back to hedge funds, I think this sector is very important, also in Switzerland, for creating new investment opportunities and ideas, and we need new ideas and business models. If you look at what happened in the watch sector here in the 80s, the new idea then was to create a SWATCH watch, offering many new, stylish and functional products for a broader customer basis, while the wealthy ones started to renew their interest in the luxury watches. This development saved the watch industry in Switzerland that totally missed the trend to electronic watches at its beginning.



Coming back to our business, one way would be to simplify investments deemed to be too complex for the average investor. In parallel, investors will have to become more sophisticated but this will take time. For the time being the largest source of wealth comes through the appreciation of fixed assets, like real estate, which may result in asset bubbles again.

Therefore investors should conduct a thorough analysis of their investment needs and constraints. In the past this was delegated to the banks. However, having a second opinion remains a valuable option as nothing replaces own analysis and judgment.

I think that listed derivatives provide a substantial contribution to the marketplace in enhancing liquidity and transparency, safety and low costs. Counterparty risk mitigation is also part of our challenge, as hedge funds will be appreciated for their returns and entrepreneurship, when they keep these under control.

Markus Fuchs I believe that going forward it will not be sufficient just to provide beta and/or alpha to the investor. The concept of the trusted advisor has been a key element in the past, and I believe it will be the key element going forward as well, otherwise we cannot gain the trust and the honesty that to a certain extent got lost in our industry.

Max von Bismarck Looking at the markets, we already discussed that volatility and the risk on/risk off environment is going to stay with us. The situation in Europe will probably play out over a few years. With the ECB stepping in, we do not think it will be a liquidity issue anymore, but the fundamental issues are still unresolved, as well in the U.S. fundamental issues like the fiscal cliff at the end of the year is unresolved, and the markets have to deal with the political risk in the Middle East.

Max von Bismarck: As a hedge fund investor we think you have to stay nimble in this environment, you probably have to consistently look forward to the next 12 to 18 months and concentrate your portfolio around say three or five key opportunities things you see, and then manage the portfolio in a dynamic and tactical fashion as maybe some themes run out of steam and others emerge. I believe this investment approach is one of the reasons why we have outperformed over the last couple of years; we have invested in a more thematic, more concentrated and more dynamic way.

We do see some interesting opportunities around Basel III and the re-capitalization of banks. We have played some of it in the U.S., where we think banks are essentially solvent, but they have to kind of retire some of their securities to meet more stringent tier one capital requirements. That is a development we are also looking at more closely in Europe.



We have been looking at Europe for quite some time and have done extensive research and believe we will probably see some very interesting investment opportunities. We usually don't invest just based on an idea, but prefer to already see a theme working in the market with managers that are able to execute on those themes. So, from our perspective, Europe is a bit too early right now. We already saw a lot of capital flowing into some of those early opportunities, and probably some people are going to get hurt.

We also see opportunity in emerging markets, for example China may be quite interesting. Obviously the Chinese markets got punished quite a bit over the past years, but with the leadership transition we believe the new leaders have a strong interest in seeing the markets do better than they have in the past.

I also agree that post QE3 some opportunities within the MBS space like basis trading have diminished, but there are other opportunities that continue to look very attractive. We are in fact excited about the next year and in general quite optimistic about our industry. I think that the current environment is more complex but also encourages a healthy consolidation and separates the men from the boys. Eventually it will become much more of an opportunity for those who continue to successfully navigate this environment and can generate hedge fund alpha for their investors.

Dr. Urs Ramseier

I also agree that there are lots of opportunities in the next few years, mainly driven by the low interest rate environment and the financial repression by governments and central banks. Very low or even negative interest rates on German, Swiss and UK treasury bills helped us a lot to raise assets. We offer uncorrelated returns other asset classes and we also help investors to find investment returns in a risk-controlled manner.



Dr. Urs Ramseier: In terms of the Swiss asset management industry, future growth and asset flows are probably not in the private banking sector but more in the segment of institutional asset management, including family offices. The private banking model in Switzerland is challenged. We will be getting more money from the pensions and insurances, and less from the private banks, with the exception of those active ultra wealthy families that go directly into hedge funds, but the broader high net-worth or mass affluent investors that traditionally went through private banking into alternative investments will be diminishing. That does not mean that private banking is a business model of yesterday, but at least for now in Switzerland, it's not a growing business.

Ernesto Prado: At the moment we are strongly engaged on the regulatory capital situations across structured assets. We are running about 80% of our portfolio on those three opportunities going forward: Mortgages, Structured assets and Fixed Income paired with FX



However, contrary to Max I am not so optimistic that that everything will be resolved in Europe within two years. The numbers are huge - as a former fixed income trader, I can tell you that there is no amount of olives Greece can produce to ever pay the money back, and the same thing goes for others and maybe all the way up to France at current entitlement levels.

In addition there is always the chance that the Greek population says to Angela Merkel "look, it is my debt, but it is your problem, because I am not going through another 10 years of austerity to end-up with worse debt levels that I have today." It is ultimately the sovereign strategic option of populations to default, and they traditionally exercise it. And since nobody can know when such an option is exercised, we keep kind of walking on the sidewalk with a parachute on our backs: We allocate the remaining 20% of our risk to an extreme event protection "parachute" that is always with us in case the floor drops.

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Transportation
Trade Finance
Merger Arbitrage
Relative Value
PIPEs
Entertainment Investing

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Funds of Funds
Statistical Arbitrage
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