Swiss Alternative Funds Roundtable

MAPLES FUND SERVICES

Zurich | October 2017

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Even in an increasingly globalised world with intensified competition, Switzerland continues to maintain its position as one of the preeminent centres for financial services and a leader in the asset management industry. However, it faces unprecedented challenges due to ongoing regulatory developments as well as increasing investor sophistication.

Maples Fund Services' latest roundtable in Zurich brought together a panel of Swiss-based alternative investment funds industry experts who offered their opinions, knowledge and expertise on a range of topics meant to highlight the opportunities and challenges of doing business in Switzerland and across greater Europe.

The Roundtable was moderated by **Peter Northcott**, Operational Consultant at KB Associates and participants included:

Mike Cartier
Operations Adviser, Culross Global Management

Charles du Marais
Founder, Aramis Capital

Stephen Lewis
Regional Head of Sales and Relationship Management – Europe, Maples Fund Services

Markus Matuszek
Managing Partner and Chief Investment Officer, M17 Capital Management

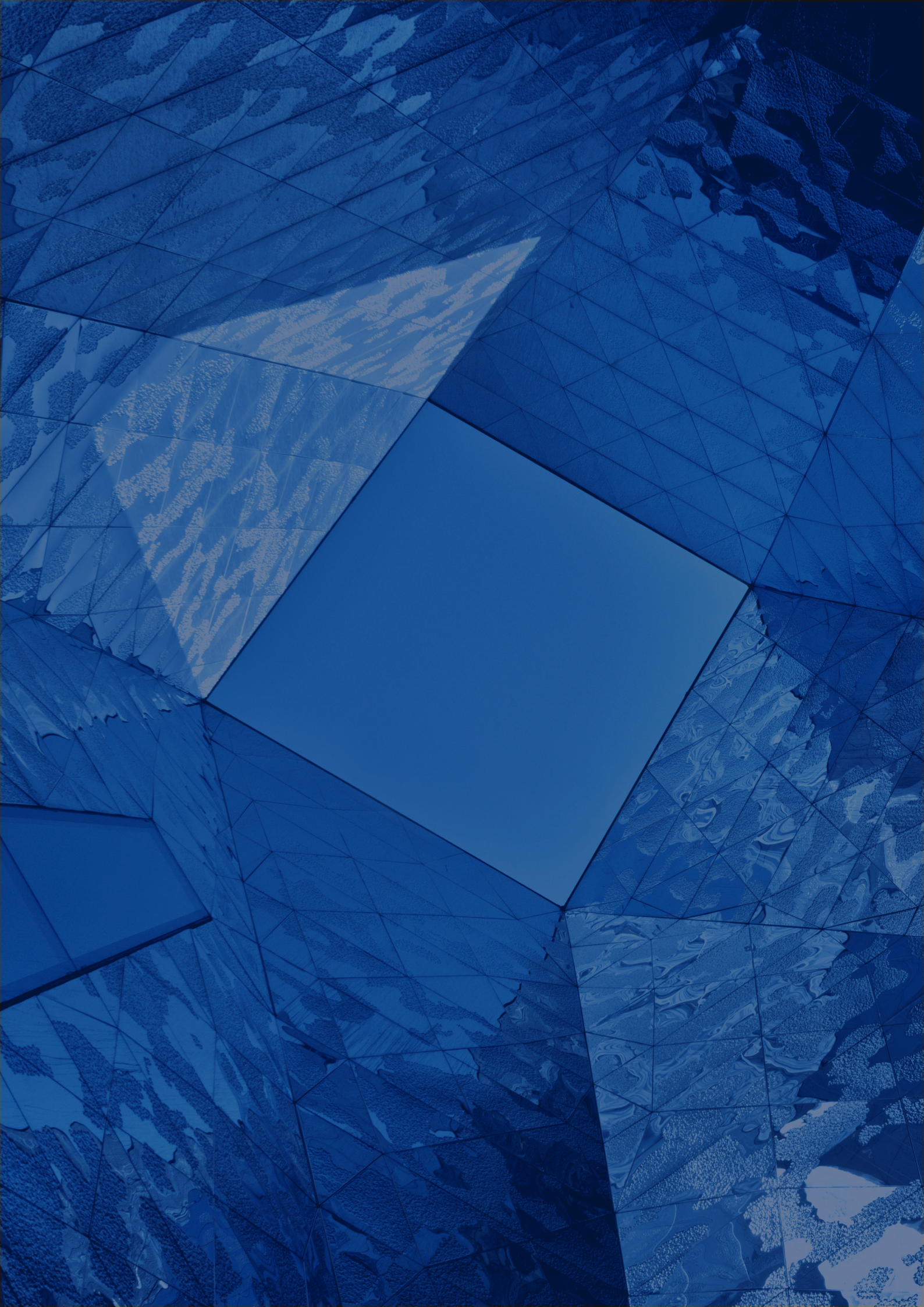
Maureen O'Brien
Chief Operating Officer, Dominicé & Co

Jon Turnes
General Counsel and Chief Risk Officer, O1 Services

Patrick Wright
Chief Investment Officer, Redstone Capital Management

Additional topics discussed include:

- A review of the evolving investor mix and increasing investor sophistication and the impact on a fund from a structuring and marketing/business development perspective;
- Regulatory developments impacting both the Swiss and European fund management industries;
- Current trends in operational due diligence ("**ODD**") and how both funds and service providers are managing requests from investors;
- A review of the challenges and opportunities facing start-up and more established funds and how managers are tackling both; and
- The outlook for the alternative funds industry in Switzerland and globally.



Introductions

Peter Northcott
Moderator

Thank you all for being present at this event. Let us begin by introducing ourselves, and I'll start as I have the pleasure of moderating this roundtable. My name is Peter Northcott and I work for KB Associates, an Irish fund services consultancy where I serve as an Operational Consultant based in London. My job is to help managers launch, so think of me as a kind of outsourced COO. I also help established managers prepare for investor ODD and provide facilities agency services to non-UK managers who want to market into the United Kingdom. My background is that I have been a COO for different hedge fund managers and I have also carried out ODD for an investor.

Jon Turnes
O1 Services

I am Jon Turnes. From a marketing perspective, the timing of this roundtable is a bit unlucky for me as my partner and I are currently going through a rebranding exercise. We are now operating under a company named O1 Services and plan to release our new brand in early 2018. We are in the private debt space and have an Irish fund platform operating under the Alternative Investment Fund Managers Directive ("**AIFMD**"). We have three sub-funds invested in bonds which are basically bonds issued from Luxembourg securitisation platforms. I am the General Counsel and Chief Risk Officer, in charge of all the legal aspects, compliance and risk management. The key aspect of our product is actually risk management. With regards to my background, I am a lawyer who has been practicing in Switzerland for close to 20 years with a focus on the investment industry. I started out as a structuring lawyer and transaction manager at a company called RMF which was acquired by Man Group. I left the company to work as an independent attorney in the investment industry before going back in-house again about four years ago.

Stephen Lewis
Maples Fund Services

My name is Stephen Lewis and I represent Maples Fund Services. I have been at Maples for over five years and my role is Regional Head of Sales and Relationship Management for Europe. I have been in the industry for over 20 years mainly working in custodian banks. We are headquartered in the Cayman Islands ("**Cayman**") and some of you who are familiar with Maples Fund Services will know that our European operations have been centred in Dublin. I would like to thank you for taking the time to attend the second edition of the Swiss Alternative Funds roundtable. We had a tremendous response from the roundtable transcript we published last year and we are hoping for a similar reaction to this year's event.

Maureen O'Brien
Dominicé & Co

I'm Maureen O'Brien and I work for a company called Dominicé & Co which is a Financial Market Supervisory Authority ("**FINMA**") regulated asset manager in Geneva. We do investment management for five funds, one of which is a Cayman hedge fund, another which is a UCITS version of that hedge fund, and three Swiss funds, one real estate fund and two equity funds, Swiss and US We also provide asset management services to private clients. I'm COO at the company, responsible for the operations, the back office as well as legal and compliance issues, including MiFID II.

Charles du Marais
Aramis Capital

I'm Charles du Marais, Founder of Aramis Capital. My company is based in Neuchatel and has two business lines: the core line is the distribution of alternative funds and the secondary is wealth management. I started the company back in 2000 after being introduced to the alternative world by AIG. Since then, we have developed the business in Switzerland and in Europe. I'm

very sensitive to all the legal and regulatory issues and I decided two years ago to set up an operation in Malta to have a proper licence in the European Community. My background was actually in architecture before heading to the United States for an MBA, which is where I discovered the financial world. I have had the opportunity to work in New York, Tokyo and London, which has enlightened me significantly on the beautiful world of finance!

Patrick Wright
Redstone Capital Management

My name is Patrick Wright and I recently relocated to Switzerland. I am Swiss and American by background and came here to start a hedge fund, investing in US listed stocks, options and FX. Prior to starting this venture, I spent 13 years with Cerberus Capital Management, four years in Frankfurt and nine years at BAWAG P.S.K., the fourth largest bank in Austria, controlled by Cerberus. While at BAWAG P.S.K., I headed the banks Austrian corporate lending group. Prior to that I headed the corporate debt restructuring group and I initially spent some time in their international finance group.

Markus Matuszek
M17 Capital Management

My name is Markus Matuszek and I am the Founder and CIO of M17 Capital Management. We are currently awaiting approval from the CSSF in Luxembourg for our European-biased equity long-short market-neutral fund. We run a differentiated strategy as our market-neutral fund is juicier in its return/risk profile than most other market-neutral funds, yet we achieve that with significant single stock positions, comprehensive risk analytics and management as well as a couple more USPs. It took us quite a while to secure the first big anchor investor and this was partially due to the fact that we wanted to start with a Cayman fund so we were focusing a lot of our attention originally in speaking to investors in the United States, Switzerland and the United Kingdom. But then suddenly, when we were speaking about our launch in Germany – right at our doorstep – we found that the anchor investor was very interested in allocating a significant amount, but required us to start with a UCITS fund, so we are starting out of Luxembourg. Previously, I was a Managing Partner at Gabelli & Partners, a global long-short equity fund affiliated with GAMCO, a big asset manager based out of Rye, New York. Similar to Charles, I didn't start my professional career in investment management but worked several years for McKinsey & Company, the management consulting firm.

Mike Cartier
Culross Global Management

My name is Mike Cartier and I am an Operations Adviser at Culross Global Management, a London firm that was established about 25 years ago and is active in the fund-of-funds business. Previously, I was COO of Krom River Trading, a commodity hedge fund which was in business for about 10 years, and prior to that, I worked in the Cargill organisation.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Peter Northcott

Thank you very much everyone. It is interesting that we have got some fairly new launches under way as it will be insightful to hear what your experiences are. The first question is whether or not the investor mix is changing. Has the number or type of investors in your funds changed and is there a greater risk aversion of investors in particular for start-up and emerging funds? We'll start with Markus on that one.

Markus Matuszek

With regards to starting our fund and comparing that to a couple of years ago, things have changed for sure when it comes to raising money. I made the mental mistake to think that today 60 to 70% of all funds are still Cayman-based, and that this automatically means that you should start with such a fund and only add additional products later on. In hindsight I think we did it all wrong. We explored all the possibilities in terms of how to structure funds and only thereafter we went out and tried to raise investor interest and capital. Instead, we should have started with the investors first, lock them in and then structure the fund around their needs. Comparing the two approaches, our investor mix has totally changed. What we have as an anchor investor is a well-renowned, large and, most importantly, a long term oriented pension fund adviser. This stability helped a great deal to secure further allocations from family offices, institutional asset managers and several high net worth individuals. Secondly, we have been subject to several long-lasting due diligence processes where every single aspect was verified until we received the respective allocation – the longest being over nine months on almost a daily basis. It is our experience that investors have become much more cautious than before, thus capital raising takes a bigger effort than even a couple of years back.

Peter Northcott

Do you find that the smaller investors – the high net worths and the family offices – were comfortable investing in a UCITS given that the overheads are slightly higher?

Markus Matuszek

In my experience, cost considerations for this type of investor have not been the key driver so far. More important are the questions of whether they trust you and you are a good steward of their capital and if you are a good investor and are able to provide the return/risk they have signed up for. The difference in terms of basis points on the total expense ratio between a UCITS and a Cayman fund exists, yet diminishes over time when you raise assets under management ("**AUM**"). Once we decided to go with a UCITS fund first, we decided to offer investors very competitive fees, especially for our founders and early bird share classes. We also opted to leverage platform providers as they help you to launch more quickly at typically lower cost levels. However, we wanted to maintain control over all services providers and we ran a typical RFP process to ensure we could get the lowest possible costs. Although you would think that the structure is pretty much a commodity offering, we obtained offers with a difference of 3.5x in terms of total costs. In the

end, together with our anchor investor, we obtained a good price for both setup and running costs – those are very competitive compared with the traditional offshore fund costs and thus have not bothered smaller investors.

Peter Northcott

Patrick, I am guessing you are in a similar position setting up a new fund. What has been your experience regarding the investors that you're targeting? Where do you feel your main attraction is?

Patrick Wright

I have also spent considerable time reviewing various platform alternatives and evaluating them versus setting up my own Cayman fund structure. Obviously, an important consideration is a European onshore jurisdiction and an AIFMD compliant structure versus an offshore structure. As I am starting with sub-US$10 million initially, I am not going to be raising money from institutional investors. My gut feeling is that it probably makes sense to do a Cayman structure, not to go with a platform, spend some time building a track record, and slowly raise funds from family offices and high net worth individuals.

Peter Northcott

Good luck! Charles, you mentioned in your introduction that Aramis has been around a little while. In terms of your marketing and business development, has there been a change in the mix of investors you're speaking to?

Charles du Marais

I am seeing exactly what Markus is seeing. We started four years ago setting up a fund for one of our major clients. The discussion four years ago was whether we should go offshore or European. My recommendation at that time was to say that this shift is major. If you want to raise money in Europe, you should go for a European structure. And frankly, today, UCITS is the vehicle of choice, there is no question about that. We see that year after year and we are still working with a fund manager who is struggling to set up an offshore vehicle in Cayman. We believe he is making a major mistake – it is not the way to raise money. But of course, it depends on your target clients. If you want to go Europe, you have to go with a European structure.

Markus Matuszek

I think the question is more about sequence and product portfolio. We only decided to put the offshore fund on hold for the moment, as it is not realistic to launch two funds at the same time. Still, in some discussions with investors, they voiced that they would want to have the choice between a UCITS and an offshore fund – especially in Switzerland or in the United Kingdom. We even had investors who changed their preference multiple times and probably need to have both to tick all the boxes.

Charles du Marais

If you look at the current market in Europe right now, you are right, there are investors interested in both investment structures, so it is valid to offer the choice between an offshore and a European vehicle. But if you go dynamic, you see a dramatic shift. You see people who only two years ago were saying that they didn't care about offshore, whereas today, they will say, 'No, it's UCITS.' So if you project yourself two years down the road, knowing that raising money takes time, I would highly recommend that you go for a UCITS first. Now, for instance, if your target clients are in the United States, they don't care! In Asia, both solutions are good.

You were talking earlier about pricing. What we see is that there is a lot of competition. I would say that the big threshold is US$50 million. You have to almost give up the first US$50 million for free. Some investors, like pension funds and big family offices, control that very well today. To be realistic, if you are in there for the long term it is roughly where the pricing is nowadays, but not very many people realise that.

Regarding platforms, there are a lot of reasons for new managers to turn to platforms because they are easy and quick. But I always warn people of the contingency risk if one of the compartments goes sour. That's the first risk. The people managing platforms are there to gather assets. I'm actually in a position right now to see one of our funds, which is on a platform, and one of its competitors is joining the same platform. That is a major issue. The first time you talk to those guys, they say that they take one strategy at a time but that is nonsense. Frankly, they are there to aggregate assets and that is it. So yes, it is attractive because it is fast. It sounds cheap, I would say for the first US$100 million, but long term it is very expensive. And to get out of the platform when you have between US$200 and US$300 million is a major issue. Investors don't like changes.

Markus Matuszek
When we were looking at all the options, we ran both calculations and considered all these issues. We saw how pricing went up for the platforms with increasing AUM. They are trying to squeeze you to a point where you have to leave them or you leave a fortune on the table. This is why we went for establishing our own UCITS umbrella fund because it was the cheapest, yet with a platform that manages all aspects of it – insofar we got the best of both worlds.

Charles du Marais
The other constraint with platforms is that they impose the whole setup. For some hedge fund strategies you might be better off with different prime brokers, different administrators. But you have no choice for administration. This can be an issue.

Peter Northcott
Given how the conversation is developing, you are already talking about the second and fourth bullets and we haven't even got to half the panel yet, I'll hold the ODD for a separate item. One question I have in relation to what you have been saying is the choice between offshore, typically Cayman, versus onshore, typically UCITS.

What about EU onshore alternative investment funds ("**AIFs**")? That was supposed to be the next big thing when AIFMD came in but none of you have mentioned that yet. Is there a reason why you would not consider EU onshore AIFs? Is that regarded as significantly inferior to UCITS?

Markus Matuszek
I cannot say if inferior or not, it simply was outside the investment mandate of our anchor investor who requires a UCITS. In this case there is little sense arguing or proposing other structures. Furthermore, at least in our case, it makes much more sense to go for a traditional European fund structure so that we can attract a broad range of investors.

Peter Northcott

Okay, so you are saying it is the investment restrictions?

Markus Matuszek
It is the investment restrictions and it is the safety net which people perceive around UCITS – the custodian, the responsibility that comes along with it, the separation of assets, the specific way of shorting. All of that basically plays in. That is why they are signing up for it. We looked at many AIF logics, probably in all major fund hubs in Europe, yet the investor's message always was that they wanted to have either Luxembourg or Ireland and that was it.

Peter Northcott

Malta? Jon, what about EU onshore AIFs?

Jon Turnes
It is always a matter of who you are targeting. Generalising this does not make sense. We went from zero to US$250 million in a bit more than a year and we operate with an Irish AIF. We are talking to pension funds, family offices and insurance companies. They don't have a problem with it.

Charles du Marais
But how about the underlying instruments?

Jon Turnes
Well, it depends on various things but you are correct. For us, the underlying instruments are debt instruments, typically bonds and floating rate notes, issued from Luxembourg securitisation vehicles. But there are a large number of things that drive this decision. Also, the destination is driven by a large number of things. We are now structuring a US$500 million transaction in a Cayman vehicle.

Cayman is not bad at all. Again, it depends on who you are talking to. It depends on what the investor's intention is. And then you have to structure around it. That is why structuring is so important and that is why it is crucial to have a clear idea of who you are talking to and who you are targeting. If you just go out and try to have a one-size-fits-all structure, it may be fine to have a UCITS but I would be interested to talk to you in a year, once you operate it and you notice what a burden it is.

Peter Northcott
We shall invite you all back!

Jon Turnes
I have been there and it is burdensome. But I am not saying that one cannot handle it. I am just saying that UCITS isn't the panacea. If the target investors are the ones who require it, and I can confirm that some do, they say, 'It's UCITS or we aren't in.' If you want to target those investors, then you have no choice, you have to go for UCITS. However, there are a large number of investors out there who are open to AIFs and also to offshore funds.

That is what I would bring up as an argument for the first question on the agenda, which relates to whether the investment mix is changing or not. If you have a clear strategy and if you structure around that strategy, and I don't mean the investment strategy, I mean the distribution strategy, I would say that I have not noticed significant changes. It may be that you come across a different type of investor. Then it may also be that this different type of investor requires you to come up with a different type of structure. Generally, investors know pretty well which type of structure they want to invest in.

Patrick Wright
I actually agree with Jon. I am not considering a UCITS for several reasons. As a portfolio manager, I think that the restrictions are burdensome. I also find that the focus on liquidity sends the wrong message to the investors. If you are not willing to invest for a number of years, you should not be in equities or other long term investments. No matter what your strategy is, drawdowns and

temporary losses are inevitable. So you need to make sure that your investors do not pull their money out at the wrong time. I think that is important. It does not mean that investors should not get their money when they want to have it, but I think it should be clearly stated upfront that this is a long term investment – it will be volatile and there will be temporary losses at some stage.

Peter Northcott

A general question on this point. Notwithstanding the investment restrictions and the liquidity issues around UCITS, all else being equal, has anyone come across investors who would not invest in an offshore non-EU structure but would invest in an EU AIF as opposed to wanting UCITS? Is there a small subset of people who say that they will not go offshore but they will go to an EU AIF and do not want UCITS? Has anyone found such an investor?

Maureen O'Brien

I haven't.

Charles du Marais

If you dig into AIFs, it is very interesting. But marketing wise, I think the big banks jumped on the UCITS bandwagon as it was new and volume driven. You can raise money even from individual investors. I think that was really the driver for UCITS.

Markus Matuszek

UCITS has retail investors in mind, it is retail focused. That means that it is as simple as it gets and it is supposed to be the most protective way of investing. I am not saying that it is 100% true because the devil lies in the details. But that is how it is sold, predominantly by large financial institutions. If you have that, you can put it into the pipeline and, as Charles mentioned, you can start raising significant volume. I do not know any prime broker who would do a conference on EU AIFs, but many are doing UCITS conferences. That gives you something to think about. It shows you where they focus their attention.

Stephen Lewis

If I look at the European market, I see fund managers having to decide between offshore and onshore, Cayman and Dublin or Luxembourg, UCITS or other regulated structures. The statistics we see published on fund domiciliation show that, from a European perspective, there is a move from Cayman to a European domicile. Within that there seems to be a preference for UCITS. Although judging by the number of new launches in 2017 I'm wondering if it's statistically relevant.

Peter Northcott

From my firm's point of view, we certainly have a fairly significant business stream setting up Irish AIFs. But still, the dominant product is UCITS. I think that the EU AIF is a sort of halfway house between an offshore AIF and UCITS. Nobody really seems to want them, you want one or the other.

Stephen Lewis

We are seeing significant Irish AIF business as well, although to date there seems to be little published on their level of success.

Peter Northcott

They are out there. Perhaps people are trying to split the difference when you actually need to do one or the other?

Stephen Lewis

I agree there is a discussion around which approach to take although we're somewhat agnostic from a service perspective as we are able to service both and provide the ManCo or hosted AIFM service as required.

Peter Northcott

Maureen, what would you like to say from the point of view of a more established firm? What are you seeing in terms of mix evolution?

Maureen O'Brien

We are very fortunate in that we started our Cayman hedge fund in 2003. So it was really a no brainer at the time, that's what everybody did. We didn't have to think about whether we did this or we did that, we just did the Cayman structure, it worked fine, the investors were interested and there was no problem. It was really only a matter of just presenting ourselves to them, presenting a strategy to them and they doing their due diligence.

Then of course, AIFMD started. Because we are based in Switzerland, we have predominantly Swiss investors, which consist mainly of institutional investors as well as family offices. We are also on the approved list of some banks. But of course, Swiss banks have both Swiss and European clients and slowly they have ceased being able to put the Cayman fund in the portfolio of their European clients and have had to switch to UCITS funds.

Having said that, when AIFMD became a factor, we started discussing what we needed to do to be on top of this. It wasn't even a push from our investors. We looked at whether we should do an AIF or a UCITS fund. We were really indifferent at the time as to which one to choose. It so happened that our investment strategy fit better with UCITS. Also, our advisers said that there were a lot more stages of reporting and restrictions on the AIF side as opposed to the UCITS side. That is essentially what swayed us.

Interestingly enough, we also looked at going on a platform with a bank, so that they would do a UCITS version of our Cayman fund. The funds that we manage are essentially our funds. For a start, the loss of control didn't really appeal to us. Regarding transparency with the fees, it was very difficult to unravel the fee structure. In the end we said, 'No, we like to control what we are doing, we shall do it ourselves.' That is the way we went.

Moving on to the investor mix change, I agree with you that nothing really has changed. As I said, if you are dealing with European investors, you cannot touch the Cayman fund anymore. So we really did very well to launch our UCITS. That is borne out by the subscriptions that we have received in the fund. Our UCITS is weekly liquidity. Our Cayman fund is monthly liquidity. I do not think there is really a big issue between those two liquidities. I think that if you go to longer stretches, it can become an issue.

We do not target retail at all even though UCITS is a retail fund. We are passported in several countries so we can actually sell retail but that is not our target audience. As far as the Cayman fund is concerned, what we are looking at right now is to do a US feeder. The investments are fairly static and we really want to start building that up now. We believe that there is a lot of money in the United States for this structure. We are also looking at Asia but Asia is a bit of a problem because it is a long way away both geographically and culturally. We note however that there is interest in both funds in Asia.

Peter Northcott
Mike, you have been preparing very hard for this.

Mike Cartier
There really is not much to add relative to structure. As far as Culross goes, the firm actually converted an offshore vehicle into UCITS. That was done primarily with the objective of satisfying European investors and has been successful. Markus has already had some experience with the Luxembourg regulator. I think that those people who have been involved historically with Luxembourg feel that there are probably some obstacles and challenges with anything to do in Luxembourg. Maybe that's changing. But I think there are some concerns about Luxembourg generally.

As far as Culross goes, the firm also has a British Virgin Islands ("**BVI**") structure. Generally, BVIs are really falling by the wayside, with certain exceptions. At Krom River, I ran four Cayman vehicles. Personally, I would say that there wasn't any dominant investor-driven objective. Because, basically, the manager needs to satisfy what his investors want. Excluding that big variable, Cayman is definitely the cheapest, easiest and fastest. But if you do have someone who has got a Cayman vehicle, as Charles mentioned earlier, and they have a European investor who can only do UCITS, then you basically have to come in and deliver a UCITS.

Many people go to a lot of academic, clerical and administrative effort directed to 'investability' and then basically, no new investment occurs. We all know people who have found themselves in an investor-directed administrative challenge, consumed a lot of resources, got it all done, and then something changed, the dynamic changed and the investment never occurs. That's always the danger

You mentioned that you were putting together a dedicated Cayman vehicle and that is beautiful. You are going to do a lot of work on putting together that vehicle. It is going to get ready and you hope your investor will actually send the funds. Because if he doesn't send the funds and you've done all that effort, potentially at a significant cost, you end up with a solution that may not be used or the amortised cost is eaten by a usually smaller investor base. That is very frustrating. I am sure it has happened to many of us more than once. It is just something that we all want to avoid.

Peter Northcott
Building on what you have all said, there seems to be a general move towards UCITS. In terms of UCITS jurisdiction, some of you have mentioned Luxembourg and others Ireland. Which do you prefer and why? Markus, you went to Luxembourg. Is that what your investor demanded?

Markus Matuszek
Actually, at the beginning of our RFP process, he leaned towards Ireland because he assumed that Irish UCITS were cheaper and faster set up. Our perception was that we will be serviced faster in Ireland, so not much was speaking for Luxembourg. The key factor for our anchor investor was cost, given his fiduciary responsibilities. All of these factors played a role, yet cost was the single most important factor and since the fund has to cut the net asset value ("**NAV**") daily, we assumed that both Irish and Luxembourg providers must be up to speed for the task. In the end, Luxembourg turned out to be the cheaper option, followed by two offers out of Ireland.

Peter Northcott
I am really surprised to hear that. Patrick, I know it is early days for you but what is your take?

Patrick Wright
Based on the discussions I have had, my feeling is that I would probably prefer Ireland for cost reasons. I am also a bit surprised to hear that that Luxembourg is cheaper. But my focus is more on Cayman than on European jurisdictions.

Charles du Marais
It is very much related to marketing and perception, especially when you go to the big pension funds in Europe. Semi-public authorities, those sorts of guys, they go to Luxembourg as a first choice.

Peter Northcott
Why is that?

Charles du Marais
I would say reputation but I do not know. Honestly, it is a bit of a mystery to me. There is also language and the legal system. When you go to France, Ireland is out. When you go to the United Kingdom or Switzerland, they are indifferent. When you go to Germany, Luxembourg is the choice. But culturally speaking, I think it depends on who you are targeting in terms of countries. Cost wise, my experience initially was that Ireland was cheaper. I believe Luxembourg has readjusted its pricing. It seems to me that, currently, it is pretty much the same. And with regards to Malta, I have seen some fund managers setting up Maltese UCITS, for instance. That is scary for investors. I think that the reputation of Malta is obvious. Also, in terms of support, there is no banking infrastructure. That is a big issue.

Peter Northcott

How about you, Maureen?

Maureen O'Brien
With a name like Maureen O'Brien, where else would we have our UCITS! Only joking. We looked at both Luxembourg and Ireland. We already had experience working in Luxembourg with something completely different – a real estate fund, registered in Luxembourg. My experience in Luxembourg was that English is not a mother tongue and hence legal documents were not drawn up properly. The servicing was okay but we have quite a complicated strategy for our fund. The Cayman fund was being serviced out of Cayman delegated to Ireland. So our administrator was in Ireland.

That was not really the main reason why we stayed in Ireland. It was really to do with the fact that we felt that Luxembourg has a 'factory' approach which is fine if you have a long-only equity fund but not so much for a complicated strategy like ours. We therefore did not want to work with Luxembourg. We didn't even look at costs, there was no point.

By the fact that we had the Cayman fund being administered in Ireland, we then obviously put the UCITS with the same administrator The ManCo is KBA in Ireland, who was introduced to us via our administrator. So that is how we came to be in Ireland, but the decision was definitively because we found that Luxembourg was not really good for what we needed.

Peter Northcott

Jon, what is your view?

Jon Turnes
Here again, it boils down to who you are targeting and what your strategy is. Some strategies may fit better in one jurisdiction than in another. It boils down to what service providers you need. Do you have service providers on the ground that understand your strategy and who can service you in a proper manner? I would not want to put one jurisdiction over another. My personal preference is obviously Ireland.

Personally, Luxembourg is less preferable to me. As for Malta, I see the issue that often investors have some strange feelings about it. But often, it is not rational, it is just perception. Generally, you should choose the jurisdiction based on your investors' preferences. We have a lot of German investors, not just Swiss investors. Often, if you talk to large German investors like insurance companies, they do not want either of them. They have their 'Spezialfonds.' In Germany, large investors set up a dedicated unit for you and let you manage it.

Maureen O'Brien
I can actually say that, as far as investors are concerned, they are not bothered where our UCITS is being serviced from. Naturally they ask the question in the due diligence but it is typically not an issue at all.

Jon Turnes
I think Luxembourg and Ireland are more or less equal from an investor's perception.

Peter Northcott

Mike, do you have any thoughts about the jurisdiction of preference?

Mike Cartier
I think I have already stated that if your investor is not driving the choice of domicile, it is Cayman. It is not that complex for me.

Peter Northcott

But regarding UCITS specifically, Luxembourg, Ireland or Malta?

Mike Cartier
On that particular topic, I think that one of the positives about Ireland is the fact that you can actually list the fund on the exchange without too much effort. The other thing of course is that a Luxembourg UCITS can also be listed on European exchanges, Germany in particular. I think that this is useful. I talked to Markus earlier about that. But I think there are AUM gathering solutions not being taken advantage by managers, for example having UCITS vehicles which enable better penetration of Germany and other European countries

Peter Northcott

You think that having a listing somewhere is important for the German market in particular?

Mike Cartier
Well I think it just makes it easier. Do not forget that where we are heading with all of this is that no one wants to have to go through a seven-page offering memorandum unless it's a fund-of-one. Again, I am not talking about UCITS, I am talking about my favourite version which is Cayman. So assuming you have a favourite version, Cayman, that is fine. If you flip to UCITS, that is fine, UCITS becomes easier. All I am saying is that from an ancillary perspective, taking a UCITS product and being able to list it is useful as it makes it so much easier to buy a listed product. Markus made comments on that. But speaking to financial advisers, I know that it is much easier for them to buy Siemens or Deutsche Bank or an exchange listed fund such as a UCITS vehicle.

Charles du Marais
If I may, I would like to mention something about offshore vehicles on the marketing side. It's getting more and more difficult with the European jurisdictions because they have different rules. For instance, if you go to Sweden, you have to register the fund with the Swedish authorities which takes two to three months. This costs money. In Belgium, it is such and such. France is almost out

of the question. So, in terms of the manager going out with his documents and offering his product to investors in those countries, there is a huge barrier. Setting up the fund is very easy, I am completely in agreement with you. Offshore is great, it's easy. But then, the mere fact of putting your foot in the country itself, such as Italy, is very difficult. You can even end up in jail. So again, it depends on your target investors.

Mike Cartier
I think that the other thing to mention, relative to the primary objective of the roundtable and the question we are focusing on, talking about private debt, equity long-short product, whatever, by definition we are an 'institutional product' that you want to basically be able to distribute to a much greater audience. That is a totally different kettle of fish. As you were saying, Charles, you really need to be thinking about that when launching a fund. Imagine if you actually did want to penetrate the Italian market, that's something you need to be thinking about earlier rather than later because if you leave it for later, it just becomes too much of a challenge.

And then, you get back to the same thing. Now, we are ready for an Italian investor, so where is the money? Because that is what always happens. If you talk to Italian investors today, if they are not at the institutional, sophisticated level, they will say, 'Well, we can't do that because it isn't actually registered for Italy.' That is just an excuse. As soon as you knock on the door again and say, 'Here is our Italian registered product that you can trade tomorrow and invest in,' they will come up with something else. I'm serious! We are just talking about Italy but there are loads of country examples where that applies. And Patrick, I am sure you guys, in some of your previous zones and experiences, came up against that as well all the time.

But generally, institutional and relatively sophisticated investors understand private debt, distressed capital, alternative asset management, they might even know commodities, equity long-short. It is basically not down to the retail level. Typically, using again the Italian example, registration almost inevitably implies that you're doing it down to the retail level of suitability, in terms of the documentation. You can't go halfway, you have got to go all of the way.

Peter Northcott

Steve, where do you see the trend going?

Stephen Lewis
From an alternative investment perspective I would say that offshore managers continue to establish UCITS funds although it has slowed in 2017. I believe that they see establishing a UCITS fund as a valid attempt to broaden the appeal of an existing strategy and make it more readily available to potential investors. So it's probably no longer a trend, more of a well worn path that still has some potential benefits.

In terms of domiciles and on purely a UCITS basis, Luxembourg is more established and has a larger catchment area in that it services every European market including the UK. Different markets have different preferences for the use of a domicile. France is probably Luxembourg, Germany is Luxembourg, in Switzerland it's genuinely a debate between the merits of Ireland and Luxembourg, the UK is Ireland. Malta has tried very hard to promote itself as an alternative but hasn't seen that much traction.

Outside of UCITS, both locations are aggressively promoting new structures – Ireland with the Irish Collective Asset-Management Vehicle ("**ICAV**") and Luxembourg with the Reserved Alternative Investment Fund. This is set to continue with Ireland launching the Investment Limited Partnership at some point in 2018.

Peter Northcott
In terms of which countries and regions you're sourcing investors from, has this shifted very much over the last few years? We shall start with Mike this time.

Mike Cartier
I am not involved in asset gathering at Culross. What I was going to say overall is that raising money in the alternative asset management world is a very difficult nut to crack. Markus has been working on it and you can't have a better pedigree than the one he has. What has occurred is that investors are much more sensitive to a few key variables, of which performance is number one. Number two, particularly with institutional investors, they are not prepared to pay 2 and 20 if they are not getting the returns promised.

What happened is that, especially now, you have a lot of the larger alternative investment managers really not delivering the returns they promised and that had been expected. This is basically causing institutional investors to be much more sensitive to that. I would say that this is really the main thing. Obviously, if Markus or Patrick wanted to do an Initial Coin Offering ("**ICO**") in their investment management company, they would probably have so much money they wouldn't know what to do with it.

In the alternative asset management industry, there is a similar phase where they were lining up outside certain addresses in New York to be able to invest in hedge funds. That's now over. I think that anybody's show presented to investors has to be a class act. It has got to be believable, scalable and 100% transparent. If it isn't any of those things, forget it, you aren't even going to get on the watch list. They certainly won't return your phone calls. That's increasingly clear.

The final thing I would say is that starting a hedge fund today, even with the good pedigree that we have at the table, requires a high degree of persistence, relentless enthusiasm and passion for work, much more than was ever the case before. That is what I personally think. If you aren't a guy who can do that without the pressure of raising assets – and I'm not suggesting that this might be the case with Markus or Patrick or anybody else – then you can be a little bit cooler about it and you can go with the five-year time horizon. If the results are good, it's going to work. But if you are someone who is working on a really tight line, 'I need this to fly and stay airborne for two years with good performance,' if you aren't able to do that, the plane crashes and it crashes quickly.

Peter Northcott

Jon, where are you sourcing investors from these days and how has that changed?

Jon Turnes
As I said, we are sourcing our main investors from Switzerland and Germany. Now that there are larger investors starting to gain interest in our strategy, there are players who are internationally active also in the United States, for instance.

Maureen O'Brien
We were fortunate because we have a track record going back to 2003. So when we launched the UCITS, because the strategy is identical, we could actually leverage from it. From that point of view, we were able to promote the UCITS fairly successfully from its launch. On the whole, because we have been around for so long, most enquiries tend to come to us rather than us having to go out there. Also being based here helps because there is a big investor base in Switzerland. We also get introductions form cap-intro teams. But then, in Europe you have the problem with AIFMD because cap-intro doesn't allow for reverse solicitation, and in other countries other regulations start coming into play. We have also won a fair amount of prizes which generates interest from potential investors. But quite honestly, we don't really do anything more active other than that.

Charles du Marais
As was mentioned, the first US$20 million is extremely difficult. You said that it all boils down to performance. To me, nowadays, performance is a given. You have to have performance. On top of that, you have to have the structure, the company organisation, the proper license, the proper passporting, all that stuff. And you have to make sure that this is updated because rules change constantly. All that is very challenging for a small operation.

Markus Matuszek
May I challenge you on that? I don't think it is actually just even performance, I think it goes even further than that. I am referring to a couple of discussions I had with investors who said, 'Why should I take on your fund with a good prior performance compared to something I have already in the book, even with a lower performance?'. You aren't coming to a clean place. Every fund says, 'We are here and we are the best,' to which they get the answer, 'No, you aren't.' Especially in our strategy, equity long-short, probably the biggest bucket of strategies out there, one of the key ways to make yourself heard is showing why are you different in the strategy, with the performance.

Charles du Marais
That is what I meant.

Markus Matuszek
So it goes even one step further. What is your differentiating factor? Why should I take money out of someone else's fund and put it into your fund? That is the thing. That makes the first US$20 million or first US$50 million extremely challenging. So performance is something that you need to have. If you don't have it, investors won't even discuss an allocation with you. But even if and when you perform well, why should the investor change the allocation? That is now a huge step up, especially for start-up and emerging managers. That is the reason why we've been out there so long and knocking on so many doors and proving our USP.

Peter Northcott
Very interesting. In a world of 10,000 funds, how can you bring your fund's USP across? How can you demonstrate that you have got this extra alpha and why? Patrick, you are at the beginning. What differentiates you? Why should I invest with you?

Patrick Wright
As a new fund manager you have to believe that you can generate returns in excess of the more established players. Otherwise what is the point of starting a new fund?. My philosophy and approach include a blend of technical analysis and fundamental analysis and melds the belief in value with the belief that a security has likely topped or bottomed. The additional alpha comes from being able to predict market turns whether in individual securities or in the general market with some probability. The challenge is to convey and explain this investment approach to investors who in general do not believe in technical analysis. I think if you look at the evolution of market prices, particularly at its extremes, it becomes clear that markets are neither efficient nor only reflect the fundamentals of the underlying securities. 2008 is a good example where market prices clearly reflected investor psychology in addition to deteriorating underlying fundamentals.

Charles du Marais
It is a lot of marketing. I suggest to most of the young emerging managers we see to think about the car industry. It is extremely competitive, 'Let's make a Fiat different from a Renault and a BMW different from an Audi.' They need to think that way. Investors, even small family offices, are constantly bombarded with investment proposals. You really have to think about what makes you different before you go and knock on their door.

I agree with you, it is very difficult, and isn't human nature for a manager to take a fund out of his portfolio and replace it with another. Because, implicitly, it is admitting that you made a mistake. You shouldn't have taken this fund first. Often, we take advantage of team changes. You know that when a new team comes in, obviously they will tell management that what was done before was garbage.

Peter Northcott

When investment teams change at investors, how do you get that information?

Charles du Marais
We talk to people on a weekly basis. You use LinkedIn, you talk to friends and you find out that he has just moved.

Stephen Lewis
I sympathise with Markus and Patrick. We share the same problem as we have to wait for a dip in performance of an existing provider and then be well known enough to the potential buyer to have any chance of being involved in a replacement bid. I think the decisions taken about where you go and look for business take real skill, knowledge and experience. Your point about waiting for teams to change is well made, it's certainly something we look for. I don't envy fund manager marketers, it is a very competitive market. How do you differentiate yourself amongst thousands of long/short equity funds?

Maureen O'Brien
That is interesting. I really empathise with you, Patrick, because we have a similar problem in trying to explain our strategy. Because we deal with institutional investors and banks, what happens is that we get the enquiry and the first thing they want to do is speak to the fund managers to get an idea of the strategy. The problem we have there, and we have experienced this many times, is that we speak to someone who then has to sell it to the decision-maker. And because our strategy is complicated, the moment the decision-maker asks a pertinent question, his employee often struggles to defend the strategy.

And then, you get into a conundrum, which is also true: people don't want to replace an investment in their portfolio with another investment because it puts into question their original investment decision. So often, the stock answer is, 'Your strategy is too risky,' it is really an excuse and I can say this because when you do get a decision maker who understands the strategy the outcome is a lot different. But we are persistent and we continue.

Also, over the years, the fund managers have learned how to present the strategy better, how to make it simple, the KIS thing. That has come with experience. Our investment relations team has also learned to make presentations that are much more pertinent and that really helps them present the strategy. Once it passes from there, the other USP we have comes from the ODD. Again this has developed over time. We started in 2003 with just Michel and then a second person joined and so forth. When I joined the company, there were only five of us. I was brought on board to put operations into place due to the regulatory requirements of FINMA. And then, over time, it grew and grew! We have 22 people now. We are FINMA regulated, everything has to be documented, done correctly and we have to check everything. That is really the last hurdle in impressing the investors.

To give you an example, we do not tolerate one cent difference on the NAV reconciliation for any of our funds. The administrator knows that. We will not sign off the NAV until we have found why there is a difference. We have two Swiss funds – equity funds – and we sometimes really have to fight with the Swiss 'direction de fonds' (ManCo) because they say the difference is within the tolerance. And we reply with, 'Sorry, we don't tolerate it.' In the end we always find the difference and we have a perfectly matching NAV.

Peter Northcott
If I want to hire a fund accountant, clearly your guys are the best!

Maureen O'Brien
The point is that it is a USP with the investors because I show them how we do the reconciliation. And they are always surprised when I say that we don't tolerate a cent difference.

Peter Northcott
Look after the pennies and the pounds look after themselves!

Mike Cartier
I would like to intervene. What Maureen really has touched on, and I think it's now starting to be discussed more openly with enthusiasm, is the operational alpha, particularly in the alternative space. Obviously, if you are a BlackRock or a Vanguard, operational detail is so process-driven that there is no discussion. But in the space we are talking about around the table, operational alpha is absolutely critical for keeping and maintaining positive investment committee discussion. You never want to lose a mandate because of an operational item because it is totally within your control. You cannot blame anybody else. It isn't the market. It isn't the Swiss central bank. It isn't any of that. It's all on your side of the line.

So often, people underestimate the importance of that, whether it's a start-up or someone who is at US$50 million. With a lot of guys I've seen, guys who have been in business with good performance records, nine times out of ten it's really an operational deficiency that they themselves don't see. They refuse to acknowledge the feedback they're getting from ODD specialists. Forget about the investment process because, as we said before, performance, performance and performance are the three key variables. So the investment process has be correct or your fund isn't even being discussed. And settling to the penny is really mandatory, I think. We are trying to minimise that but it has to be daily settlement to the penny.

Today, there is no reason not to have that basically, either immediately after settlement prices are published, wherever it is, or your own manager-calculated valuation. I just think that so many people are missing a trick. So often, guys who have got US$25 to US$50 million say that they simply cannot reach the next level. I think they are refusing to listen to what ODD people are telling them about what is current best practice, what they need to do to become investable, and making those tweaks and changes that are absolutely critical.

A final point, and here I have to go back to my initial experience with some early hedge funds, Krom River in particular. I can tell you one thing right now – at the very beginning, we did not look anything like what we looked at two years or at our two AUM peaks. You have to be evolving with the process. If you aren't, it just isn't going to last. Everyone in the firm, whether it's KB, Maples, other service providers, they too have to be evolving because, otherwise, a Markus or a Patrick isn't going to use you. If you aren't definitely best practice, if you aren't getting positive commentary from other investors, people with the money who spray it, it isn't going to work.

Charles du Marais
To me, there is a parallel with the restaurant industry. The kitchen has to be clean, the carpet in the restaurant has to be clean. It's basic and it's a given. If you don't have it, then close the shop. And on top of that, people talk to each other, especially when you go to family offices as target clients and investors. And often, when you start, this is the universe you have to focus on. And they talk a lot. It is like when you have a bad experience in a restaurant, you talk to all your friends about it, it has to be a given. The kitchen is clean.

Mike Cartier
A reputation is built over years and lost over night.

Stephen Lewis
Can I make an analogy?

Peter Northcott
We have already had cars and restaurants from Charles, so please go ahead.

Stephen Lewis
How about airlines. SAS asked their clients what they thought about their airline. The feedback they received was that the tray tables were dirty but the marketers didn't think that dirty tray

tables were the issue, especially when the costs of cleaning them were factored into the equation. What they didn't pick up on was that passengers equated dirty tray tables to the aircraft engines not working properly. Passenger numbers continued to dip until they started cleaning tray tables.

The parallel is with the reports we provide, on behalf of fund managers, to your investors. The level of detail investors demand these days is incredible. Investors invest in a multiple funds and see reports from all those funds. If there is something they don't like about our reports, the fund manager gets a call. The report is our tray table. Even if its accurate, after discussion with his investors, the fund manager will believe that our fund accounting 'engines' aren't working properly if the report lacks clarity or is difficult to read.

Just like SAS we have cleaned up our reports and focused on the presentation of the data and as a result the MFS reporting engine has become a critical part of our business delivering operational, performance and regulatory reporting.

Jon Turnes
I couldn't agree more with what has been said about operations and that everything has to be super tidy. My question is whether this adds to the USP. If it still adds to the USP, it is actually a bit sad. If somebody has an untidy kitchen, unless he has a couple of lucky punches and gets money from friends and family, he isn't going to appear on the radar of investors for too long. Tidy operations are a must. Maybe you can still build that as a USP, particularly if you are a small manager. However, my opinion is that your USP has to be elsewhere.

Our USP is not the performance. In the private debt space where we are, the performance is what it is, it's more or less fixed. Our USP is about the quality of the investment, how we can avoid making losses, how we can avoid defaults. We don't have too many conversations about performance. That also defines our investors. They don't like to grow their assets, at least not substantially. They want to maintain them, grow them a little bit. They are looking for an investment grade type of risk/return in the product. To make a 3 to 4% performance is what pension funds and insurance companies are struggling with these days. We are delivering this performance with investment grade quality. That's where we come in with our USP.

Maureen O'Brien
As far as due diligence is concerned, things have changed as well in that we really have to jump through hoops these days on the risk side. That is a big part of the due diligence and wasn't there a few years ago.

Mike Cartier
I think that one of the things as well that happened is Albourne Partners. Personally, I loved the Opera reports. I think there was a lot of frustration. I was only involved in listed products, which is really a very simple world. When investors came and we talked to them about the Opera reports, we basically sat down and in two keystrokes we had a real time Opera report. It's not that problematic, it's just harvesting the data.

But where I was going to go with this is that, occasionally, you do get investors, advisers or third party people who say that you need to do this, that or the other. All I'm saying is that, on the one hand, there is best practice. And on the other hand, there are unreasonable demands. On that continuum, a manager has to be very clear about what are unreasonable demands. We sent mandates away which had what we felt were unreasonable demands. And even if they were potentially big tickets, fortunately we had the ability to do that. And I am sure that, previously, you guys have also had the same experience. You just have to be able to say no. That doesn't mean you ignore best practice and what the norm is for the industry.

Just for the record, I would like to state that I love Albourne Partners and everything they do. The United States is littered with little Albournes, independent advisers who basically do what I would describe as a fund of fund type analyst work, share the details, and then the larger investors, particularly pension funds, will utilise their services to make investment decisions. It isn't unique

to the alternative asset industry. You can apply that to real estate, commercial loans, whatever you want to invest in.

Peter Northcott
I must admit that, twice now, I have had investment managers call me up in a blind panic saying, 'Oh my Gosh, we have got Albourne coming in in three weeks for a due diligence review, please come and help us prepare, Peter!' And of course, it is a very fast turnaround for me to go through all of that. But it has happened twice already. Albourne seem to strike terror into the heart of people on the receiving end of ODD.

Mike Cartier
It is Albourne's ranking system. I can't remember the exact parameters, but the main thing for a manager is to get into Albourne's best ranking zone because, basically, anybody who is using Albourne won't worry about the guys who are below the midpoint. They are just interested in the guys in the best ranking zone as that, allegedly, is limited risk.

Charles du Marais
The Morningstar principle.

Mike Cartier
Exactly, but tailored to the alternative asset management industry. What is most interesting right now about that is the chant of one or thirty, because that's also something they are bandying about quite loudly.

Peter Northcott
Jon, you are CRO and General Counsel and must do a lot to support due diligence. What trends are you currently seeing?

Jon Turnes
As I mentioned before, we mainly talk to institutional investors, large pension funds and there is no way around extensive ODD. To me, it is part of the sales process. Therefore, our whole team is the sales team. Almost everybody in the team gets involved in the due diligence process before there is actually an investment. We are all in sales. Money doesn't just flow. It is always hard work for months. Markus, you mentioned seven months. It can even be up to a year. Quick investments, at least of substantial size, just don't happen anymore, at least that isn't what we experience. Maybe some small amounts come in, to test the strategy, US$500,000, to see how it goes. But at the same time, they continue ODD, that's what we see. It is extremely detailed, on all levels, down to all the risks involved. All of you know how they do it.

Peter Northcott
A quick question on that. You talked about investors putting in a trial sum to see how things work, maybe US$1 million. You said that you work in private debt. But presumably, you have a fairly hard lock-up. Do these investors negotiate fast liquidity for their trial investment?

Jon Turnes
We don't have lock-ups. We have monthly liquidity. Our underlying investments are self-liquidating between 30 to 120 days, the whole portfolio within a year. What we're doing is quite liquid for private debt. But what was your question about negotiating?

Peter Northcott
You say that you have a year's lock-up. An investor puts in US$1 million to see how you get on but wants to pull it out within three months if he isn't happy.

Jon Turnes
He can pull it out easily without negotiating special liquidity terms.

Maureen O'Brien
Regarding ODD, because we deal with institutional investors and it has always been the case, we jump through hoops. A four hour due diligence is the norm. It isn't unusual that I have to sit there for four hours with three people grilling me across the table.

Peter Northcott

Don't they want to speak to other members of the team?

Maureen O'Brien
When they come to the risk section, I can only go a certain distance. When it gets really complicated about how we do the calculations and stuff like that, I'll bring the CRO in to answer their questions. But on the whole, when it comes to ODD I can usually do it on my own.

Peter Northcott
We used to want to speak to people individually so they wouldn't have the COO supervising. Because sometimes they say something they shouldn't when you've got them on your own.

Maureen O'Brien
No, we don't have that. We are quite small with only about 22 of us. They come and sit at my desk, and I show them how we do the reconciliation. What is also interesting with due diligence is that it isn't standard. Talking about Albourne, the first time I ever had to go through one was with Albourne. It was a baptism of fire. What was interesting was that, at the time, Albourne wanted to standardise. They wanted to have a platform where due diligence could be standardised. But that just doesn't work because every firm has a different set of criteria or a different emphasis that they want to look at, that they think is important. So the only change over the years, I would say, is that the risk due diligence has really become very big. That's a big due diligence situation. As far as ODD is concerned, it really hasn't changed that much over the years.

Peter Northcott

Charles, you would have endured some of this, isn't that so?

Charles du Marais
Coming back to the subject of offshore UCITS, what I am seeing increasingly is a that some family offices and banks don't go on-site, they do light due diligence. This is a red signal.

Jon Turnes
Have you asked them what they are actually relying on? On the procedures that are in place, the reporting?

Charles du Marais
They believe that everything must be in place because of the regulation. This, to me, is a big simplification.

Peter Northcott
Markus, I know that you have had to endure this because we have talked at length about it.

Markus Matuszek
I have come across some investors who apply a different level of scrutiny when it comes to due diligence for UCITS and for offshore funds. Some people say that because it's UCITS and the product is focusing on safeguarding retail investors and thus has more safety measures in place that you could go less deep than with an offshore fund. The separation of assets and the responsibility of a custodian are also often mentioned as additional reasons. Yet, it has been my experience that institutional investors do quite a lot of due diligence irrespective of the structure. On the UCITS side, they spend much more time on investment as well as risk process due diligence and a bit less on the ODD.

But what I wanted to say in terms of regulators is that I think that also they are slowly but steadily stepping up in that area. Just to give you an example, when we were looking at third party marketers, in the old days you basically just had a contract and you were good to go. For the fund we launched, we obtained a 20 page due diligence questionnaire ("**DDQ**") from the administrator with approximately 300 questions ranging from conflict of interest avoidance to internal risk processes of the third party marketer or on how the marketer can ensure to act in the best interest of the fund and not pitch it to an investor which has already invested in another product of the marketer. That all has to be documented to ensure the highest level of transparency in all activities around the fund. All of that does provide investors with an additional level of comfort – at least I believe this is the intention.

Thus overall, it is fair to say that both investors and regulators take a more risk-cognizant approach and therefore decide where to drill deeper in their due diligence efforts.

Peter Northcott
Stephen, from your point of view, you are representing a significant fund administrator, we have heard that investors are doing a lot more due diligence on service providers in general and fund administrators in particular. Is that what you have seen?

Stephen Lewis
Absolutely. I think that ODD teams are looking at our operations on a daily basis. It certainly has increased over the last few years, they are in our offices all the time. It's become an integral and important part of our industry and something that takes up a lot of our time. I take Maureen's point, it is repetitive as the questionnaires or the list of documents they want us to look at don't change. ODD teams look at every aspect, every detail. I don't think they spend as much time with us as they spend with fund managers, but it has become an important part of the industry.

Mike Cartier
I wanted to come back to what Maureen said. It is irritating when you do an ODD that your day is basically used up. That's number one. Then you have all the preliminary documents shared, which they haven't read. They walk into your office and ask you basic questions about everything you have already given them. That is very irritating. One of the things that we did for a while was to utilise Amber Partners.

Basically, the approach was that you have to understand what the Amber Partners due diligence document is on the manager before you walk into the office. So you have to come prepared. And if they weren't willing to do that, ultimately we had to tell them there was no point in physically visiting us. And they want to see you on a continuous basis. All of a sudden, your entire life is focused on ODD. It can be ridiculous

Peter Northcott
I was on the working group for AIMA DDQ. My idea was something like the UK tax returns. You put in the bits that relate to you, plus a general bit. So you have the general bit, then you pick your strategy, you have a selection of strategies. And then you pick your fund type: is it a fund of one, is it a UCITS, and such. All the different models and jurisdictions. And therefore, it hopefully makes the process a bit more efficient. But unfortunately, all you guys are going to have to re-do yours.

Maureen O'Brien
Which falls on my shoulders.

Peter Northcott
I am sorry about that. I didn't like the 2014 version very much. We also tried to liaise with an investor working group working on their own DDQ. I was trying very hard to get the two sides to talk to each other. What you don't want is to have to do the AIMA DDQ and then a whole other one, which is investor specific. I think it is just creating work. I know that this is what happens.

Maureen O'Brien
This is exactly what happens. First of all, the investors have a talk with the fund manager and then, they start asking for documents. One of the very early documents is the AIMA DDQ. So that gets sent to them. So they already have all the information, but the next thing that often happens when it comes onto my desk, is that I get a form from the investors to fill in with about 250 questions which essentially repeats the DDQ. That is the one they face me with and ask me questions on. They have the DDQ there as well, but they compare everything and ask me a lot of questions.

Peter Northcott
I must admit it is very frustrating when the due diligence analysts have not actually read what you've sent them.

Jon Turnes
In such cases, they are either junior or have no clue. Unfortunately, it is often the case that they just come and ask the same stuff in the logic and order they have on their templates.

Peter Northcott
They don't pick anything up.

Jon Turnes
A good ODD can be very similar. You can write whatever you want on paper. But if you talk to the person in a different order, you may notice someone wrote something in the DDQ but the reality is different. There are both things. It is important and indispensable to visit the manager. I have been on both sides, by the way. I have also done ODD for quite a long time - visiting the manager, talking to the people, double checking whether the DDQ reflects the reality. And then, also looking at what is going on, as you said. Sitting in front of the systems and going through them. There is no replacement for that.

Maureen O'Brien
I wholeheartedly agree with you. I come from a business background, before I joined the financial industry. You cannot do business without doing proper due diligence with whomever you are going to do business with. I don't have a problem with people sitting in front of me asking a lot of questions. The thing that bothers me is having to complete the DDQ plus the investor's questionnaire.

Charles du Marais
There is some justification for a double check because some DDQs might be obsolete, especially on the staff side. The DDQ might say that a guy has left the firm three months ago. It shows you how often people update their documents.

Peter Northcott
Okay, last question and if we have time, we'll come back to some of the others. What do you see as the biggest threats and opportunities in the alternative market in 2018? I am going to start with Markus.

Markus Matuszek
For actively managed funds, a correction would be an opportunity. It sounds a bit weird but for our strategy that would be lovely as it works best in an environment of low correlation and high

dispersion. I do believe that many investors got accustomed to low risk levels and are just riding on market momentum. This trade seems to have gotten a lot easier, given the long period of low volatility. Some investors seem to also be loosening up again towards the end of this year, similar to what happened in a way at the end of 2015. I do hope current markets are not taken as the new normal. The fact of the matter is that over 80% of all trading days with a VIX below 10 have been in 2017 alone. While I don't want to be counted into the too pessimistic camp, if you start looking at the quarterly earnings results in certain sectors – in particular in Europe – then some of the companies have actually already peaked, do guide for lower growth or even issue price warnings and correct guidance.

All these elements represent opportunities for actively managed alternative funds which have been banged for years for not delivering alpha, or worse, for not having provided the promised capital preservation. If the indices are thriving, it isn't such a compelling argument to pay someone heavy fees and just track the index. Even less so, passively managed funds have had a stellar run so far.

Turning to the risks, I am not sure whether all these additional regulations such as MiFID II are a risk but here and there, I hear people wondering what is happening and the consequences it will bring – wanted and unwanted. Take for instance the price of research – these fees are all over the place – some start at as little as US$1,000 per year and others charge US$250,000 per year purely for accessing research. Some analysts are charging US$2,500 per hour. It makes me wonder who ultimately pays for all of it. My worry goes beyond the pure cost side of it, I wonder whether these changes do impact many actively managed funds and whether they might run into performance or profitability issues so that the consolidation accelerates even beyond its current pace.

Peter Northcott
I read somewhere that a great majority of managers would foot the bill themselves rather than pass it on to their investors.

Markus Matuszek
I think there are different ways of footing it. They are trying to convince investors to do it either in a shared manner or are putting it onto them. But the way they think about that is potentially stepping up a few basis points in the management fee. Then you have an all-in logic. Say you are on a strategy with 1.35 as the management fee, you step it up to 1.40. Whatever excess there is managers are picking up themselves.

Peter Northcott

Presumably, brokerage rates must be coming down to make up for this?

Markus Matuszek
For me, it is a Dutch auction. It is to the point where, basically, parties find each other. The large brokerages started with a high price and looked at how many managers were signing up. Then they continued the process by reducing the price to realise that more managers would be signing up. It comes down until brokerages think they maximise their revenues out of it. Trading commissions will only be affected a little bit as those have already become cheaper over the years.

Patrick Wright
I agree with Markus. The bull market that has been going on since 2009 – the longest bull market in recent history with very low volatility – has driven investors into large-cap stocks. What is interesting, I think, is also the move into ETFs and passively managed strategies. I think there are three players that basically dominate the ETF space. You need to have very large ETFs otherwise it doesn't make any sense to create them as the fees are minimal. Liquid ETFs basically require liquid stocks. So many ETFs own the same large-cap stocks, the Exxon Mobils, the Wells Fargos of the world.

When you have people investing money without even knowing what the cash flows or earnings are, you're going to get excesses and those excesses are going to impact the market at some point when this whole thing goes into reverse. It will be high volatility and if you are on the wrong side of this you can lose a lot of money. But there is also a big opportunity for investors who can go short. You also need to have a view that is different from the mainstream. So if you have all that, I think it is a great opportunity.

Markus Matuszek
To add to the ETF issue, one of the things that I find interesting in that space is that ETFs give you the assumption that everything is liquid, right? You can trade in and out. But if the underlying is illiquid because you are in a small-cap ETF, which does not have the same liquidity, you would end up with a mismatch. I am not saying that it is something that we are foreseeing but we are discussing it internally. Is the thriving ETF industry getting even a bigger share by going into illiquid things and selling it as a liquid ETF? And suddenly, you will have the house of cards coming down – at least with widening bid-ask spreads. I am not saying that it is going to happen soon but it is a question that we have.

The other thing relates to volatility. Ask your prime brokers how many of their traders have seen high volatility markets or high interest rate environments. Certainly, tenured managing directors who oversee trading desks have had that experience. But the overwhelming rest have not. These traders have become accustomed to the last 10 years of low interest rates with somewhat confined volatility. If things really go wrong, you might not only face an unexpected dislocation with potentially higher volatility and increasing interest rate, but you might also face a situation with traders who have no experience in handling such occurrences and could possibly exacerbate the problem instead of confining it.

Charles du Marais
On the negative side, I see increasing barriers to entry into our industry because of the growing pressure of regulation. Our business is focused on young managers when they're in the US$20 to US$100 million bracket. They don't need us when they are in the billions. And we see increasing difficulties for these guys to set up their business and to have a decent business plan which is viable for the future. I think overall, for the investment industry, it is harmful since you eliminate a lot of talent just because of the regulatory aspects. I don't think the regulators have reached that conclusion, but I think it is a big harm.

On the positive side, I think there are more and more people coming to the alternative world again because of what Markus just said. Many people are scared by a turnaround of the markets. So a lot of people see value in the hedge fund industry. I would say that this trend is a bit new. We see a lot of people who have faded away from the alternative world coming back.

Maureen O'Brien
I concur with what has been said. It is certainly true that people are coming back to the alternative sector.

Peter Northcott

Long-short or short-biased type funds?

Maureen O'Brien
They say that they are in the volatility space, so if they start seeing high volatility, Eureka! It has a lot to do with that. And because we have the track record over the years, the investors have stayed with us even when our performance hasn't been as big as they or we would like. But they basically stay because they know that, at one point, something is going to happen. That is when the fund will come into its own. So that is an opportunity for us. For me the threat is, without a doubt, the regulatory environment. It is stifling the industry. And the politicians are the ones who have been the instigators.

Charles du Marais
There is a whole industry which has flourished.

Maureen O'Brien
Exactly. This is the other thing, of course: the consultants, the lawyers and such. It is in their interest to keep this momentum going. And at the end of the day, it is the investor who pays.

Jon Turnes
I would actually call this an opportunity. It isn't going to change. It's driven by the politicians. Regulations are not going to be less tight in the future. The opportunity I see here in the market is to embrace it. It may sound a bit weird, but we should start becoming somewhat passionate about risk and all that stuff. That makes a huge change when you talk to investors. At least, that is what I am experiencing. All of a sudden, they feel that you are having some passion or even fun about being a good risk manager, rather than thinking that they are idiots for asking all those stupid questions. That's what I keep saying to people who say that risk management is rubbish. It's the wrong perception.

Markus Matuszek
I'm absolutely for regulation because I think it offers a certain protection. The last thing I want is to be in a jurisdiction that has no regulation or a very loose one. Because ultimately, that isn't going to help us either, right? So, from that angle, I think it is a quality stamp that you need to have, that gives you more investor demand because they know that you are doing things properly. Insofar I do agree with you on all these points. But in certain instances, regulation becomes a purpose of its own without the investor protection in mind – that's when I doubt that regulation really adds value.

Jon Turnes
I wasn't talking about whether the regulations were reasonable or useful. Regulation is there whether you like it or not. You can be angry about it and cry about it but it's a fact. So, either you embrace it or you don't. And if you embrace it, I see that as an opportunity for marketing in the coming years. I fully agree that there is a ton of stuff in there which isn't at all reasonable and which fails to lead to the effect intended by the relevant legislative body.

Maureen O'Brien
From my point of view, we are FINMA regulated and I don't have a problem with that at all. I think it's good to be regulated. I absolutely concur with you. I like the fact that we can show the badge that we are FINMA regulated, but we have to jump through hoops when we do our prudential audit. The thing that bothers me is MiFID II. I am getting daily e-mails from every bank we work with, containing extensive forms I have to fill in, and they are being sent to everybody regardless of whether your fund or your strategy has anything to do with what you have to fill in or not. That is what really bothers me, it is the waste of time. That is the regulation bit that I hate.

Mike Cartier
I really echo what you guys are saying. Being based in Switzerland and having JP Morgan as an investment manager managing a Cayman vehicle, I would send it back to them and say, 'Sorry, this is not a document I need to fill in for you. You fill it in, send it back to me and I'll review it but I am not going to do your work for you.' That is a classic example, we touched on that earlier.

What I was going to say, in addition to everything else, and there is nothing I can take contention with, I would say that the new law on alternative investments which comes into force on January 1, 2018 will slowly but surely start opening up Germany to alternative investment products. If things start changing there, there could be a big door of opportunity in Germany and with European harmonisation. I also think that the new emerging manager, who is already delivering his key variables, has a big scope there. I think we are back at the stage where if a manager is able to deliver the three key variables and has the right structure in place there is a very good scope for that emerging sector. People really want to do the new stuff and with the changing attitude, they really want to start talking to new private debt guys. The new crop, I think, is ready to be embraced by everybody.

Stephen Lewis
From my perspective, regulation is obviously an opportunity. I think it's fundamental for our industry. When I first joined Maples we were very much focused on the experience of the people providing fund accounting with technology supporting their work. Today, it's more about the technology as we have to be able to provide all the reporting that the fund managers and their investors need. A large part of that is regulatory based, in all its various formats.

I would also include the Foreign Account Tax Compliance Act ("**FATCA**") and the Common Reporting Standard ("**CRS**"). As FATCA and CRS have appeared on the tax compliance/regulatory horizon the fund management community has said, 'I can't do this myself, who else can help me?'. The fund administrator is the obvious place because we are holding the books and records. By default, we have gone through it, we have gone through Annex IV, we are going through MiFID II, we have worked on EMIR. We have added FACTA and CRS to that list and will continue to add new reporting as regulation changes. It's become a very important part of our service offering and an area where we add significant value to our fund manager clients and their investors. It's also an important revenue stream as we have to charge a fee to pay for the people and infrastructure we've developed to support the delivery of regulatory reporting.

Charles, your point about making it easier for funds to launch, we've also accepted that as a challenge. The approach we have taken is to establish platforms. We have developed platforms in Ireland and Cayman designed to make it easier and cheaper for funds to launch. If you can help us get that message across, we would be very grateful.

And finally, in terms of changes in technology, we have a team of people looking at blockchain and assessing the opportunity it and other technological advances presents. Distributed ledger technology has been around for a while with blockchain possibly providing an opportunity to streamline processes across multiple service providers. I can see it impacting vertically integrated transactional processes, such as custody/depository in the next 5-10 years but it is going to take time to become established and trusted. It's more likely that AI and robotics will have positive impacts on other processes, especially where there are well established administration factories where componentry can be redesigned and staff can be replaced

Mike Cartier
Regarding what Stephen said, I recently attended an event in Zug, which was standing room, airline economy seating. There is a lot of confusion about distributed ledger technology. Really, I believe that this wave is just coming. What is happening is a bit like a turbocharged Internet. People talk about the Internet of Things and all of that. That is really all about distributed ledger technology. There is a lot of confusion about the ICOs and cryptocurrencies.

One of the technology guys actually stood up at the beginning of this talk and said, 'I am happy to see all of you guys here, some of the guys in this room are going to be rich and others are probably going to go to jail.' All of us can put together, at least in theory, a business plan, make it believable and actually do an ICO ourselves. If I were in investment banking right now doing IPO deals, I would be very concerned about the wave coming, and it's a huge wave. When I look at some of the commodity companies, whether producers or consumer, they are really embracing it because they just see the cost saving potential as a very big carrot. It is blatantly obvious where it's going to go. It is just how fast the coders can work to basically take the old processes and fit them into the new.

The industry will be adopting solutions much quicker than it currently believes. I'm a seller at two years, quite honestly. One of the big European pension funds has already utilised blockchain for the distribution aspect of pensions, down to the individual level, to basically flip all of that on a platform and take out a huge amount of cost. And now, what they are doing is working on the investment side.

They are basically figuring out ways to adapt and improve the asset management process. Adoption today is unbelievably quick and whether it is my laptop or things that are happening

underneath it, I just think it will all look very different. Hopefully, some of the same players will be standing. There was an asset manager at a recent London event who said that as far as he was concerned, the fear wasn't about the BlackRocks, the Goldmans and such, but the new firms that are being developed today that are highly likely to suddenly find a niche and get immediate traction and fly. It is really very exciting. I think it is going to be much more interesting for everybody.

Peter Northcott
One final thing, with regard to opportunities, I do see a continuing move back to emerging managers by investors. With the decline in the fund of funds industry, who were key investors in the emerging manager sector, a big hole was created. I think that this gap is now slowly being filled. Opportunities do exist, there should be greater returns there if you do it properly. I also believe that new regulation in the EU plus the huge political instability in the United Kingdom will contribute in making Switzerland a more attractive place over the medium term. We shall see.

Mike Cartier
Switzerland is certainly the place to be!

Peter Northcott
I think we are well out of time now, thank you all for your insight.

Stephen Lewis
Yes, thank you very much for your time. This discussion has been very educational.

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