OPALESQUE

Opalesque Round Table Series '11

FRANCE

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Editor's Note

Fostered by a **range of innovative initiatives** from French asset management associations, regulators, and France-based managers and investors, new momentum has been building in Paris, contributing to the growth in strength and number of the local alternative investment community:

- **The EMERGENCE national seeding fund for France-based asset managers incentivates French nationals working in places like London, New York or Connecticut to come back to France to set-up their company or office**
- **French financial regulator AFM views it as a "necessity" to have more managers and more alternative investment management companies in France. The AFM is considering more flexibility regarding regulation of the product and the manager while being stricter on selling practices**
- **The AFM is also considering discussing with the prudential supervisor ACP an extension of the buying powers of institutional investors into alternative investments**
- **Hedge fund launches that before would have taken place in London are increasingly happening in Paris**

However, the path to become a globally leading asset management center is considered long and difficult, and will require even more support and coordination of local regulations and the investor base.

"Good" AIFM versus "roadblock" Solvency II

While the AIFM directive is now seen as a success and "good directive" for the future of the alternative investment industry, the misconceptions of Solvency II regarding hedge fund investment and its very unfavorable "by default" treatment of alternative products is considered to be the major roadblock for European institutions regarding a wider usage of alternative investments.

Nevertheless, French investors invest into absolute return funds "if a manager truly achieves this absolute return objective by creating alpha and not packaging up beta and selling it at alpha prices."

French managers and solution providers experience a significant institutional demand for high quality UCITS and other onshore funds. Asset manager Lyxor announced the launch of two dedicated managed account platforms in Dublin and Delaware (for U.S. institutional investors), as well as a UCITS hedge fund platform for single hedge fund managers.

Like the magnitude of their fixed income risk, institutions mostly underestimate diversification benefits of hedge funds

Institutions are only slowly awakening to the fact that they largely undervalued the risk carried in their fixed income portfolios, and that the magnitude of that risk is substantially larger than what a portfolio of hedge funds may carry, when in fact each stock market crash has shown that hedge funds act as a useful diversifier in an institutional portfolio.

The 2011 Opalesque France Roundtable – sponsored by Lyxor and Custom House Group – took place in July at the Lyxor office in Paris with:

- **Anne-Sophie d'Andlau,** Managing Partner, Co-Founder, CIAM
- **Patrice Bergé-Vincent,** Director of Regulation Policy and International Affairs, Autorité des marchés financiers - Asset Management Regulation Division (AMF)
- **Alain Dubois,** Chairman, Lyxor Asset Management.
- **Pierre Lenders,** Chief Executive Officer, HDF
- **Michel Boiron,** CIO and Co-Founder, Numbers
- **Philippe Paquet,** Managing Director, NewAlpha Asset Management
- **Reza Ghodsi,** Managing Partner and Founder, Darius Capital Partners
- **Nathanael Benzaken,** Managing Director, Lyxor Asset Management
- **David Lenfant,** Managing Partner, Laffitte Capital Management

In addition, read:

- **From which regions and countries do France-based managers raise most of their assets and why French retirement schemes or mutual insurance groups are still cautious about hedge funds**
- **Why long-term investors should always favor transparency over liquidity**
- **Why French regulations offer the best investor protection in Europe**

Cover Photo: La Grande Arche de la Défense

- **What AIFM means for offshore hedge funds who from July 2015 onwards will have to apply all the directive provisions if they wish to market to professional investors in Europe**
- **How to get an extra net return of 6% per annum on top of a hedge fund's net portfolio returns**
- **The case for dividing the UCITS framework between simple and complex UCITS and why UCITS will make it easier for investors to rank managers.**

Enjoy "listening in" to the Opalesque France Roundtable!

Matthias Knab
Director Opalesque Ltd.
Knab@opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Reza Ghodsi, Pierre Lenders, Philippe Paquet, Michel Boiron, Nathanael Benzaken

Patrice Bergé-Vincent, Alain Dubois, Anne-Sophie d'Andlau, David Lenfant

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Introduction

Philippe Paquet
NewAlpha Asset Management

I am Philippe Paquet, Managing director at NewAlpha Asset Management. NewAlpha was launched in 2003, we are one of the very few hedge funds seeding group dedicated to alternative investment managers. Another differentiating point is that we also work exclusively for external investors. Therefore we are not running funds of funds or other internal vehicles that under certain circumstances can create conflicts of interest with a seed investment.

Since launch we have invested $650 million in seed or acceleration capital. We have concluded 16 seeding partnerships through four vintages of seeding vehicles. The third vehicle, which is still being invested, has raised $150 million. The managers seeded by just this vehicle alone have grown to about $2 billion in aggregate under management at the moment.

So far we have invested 40% of the $170 million we have raised for the fourth seeding vehicle. We were named the Best Seeding Platform recently, and you may have seen that NewAlpha has also been selected as the investment manager for the French National Seeding Fund EMERGENCE to be launched in October of this year.

Michel Boiron
Numbers

My name is Michel Boiron. I am CIO and co-founder of Numbers. Numbers was set up in early 2008, and currently manages approximately $100 million. Our investment approach consists of combining global macro information with quantitative models on a wide array of liquid markets. Our program is fully systematic and trades all market sectors – more than 70 futures contracts in fact - with a 50% exposure on commodities. Our objective is to deliver superior risk-adjusted absolute performance with little correlation to traditional stock or bond investments, and limited correlation to major CTAs.

Pierre Lenders
HDF-Finance

I am Pierre Lenders and represent HDF-Finance. We are an independent and global multi-manager, with 90% of our € 1.2 Bn assets invested in alternative products. Some of our track records go as far back as the early 90s. Our clients are mainly French institutional investors and some direct private clients. Most of our programs are typical multi-strategy. We do have a forte in equity products, and some of our products contain only equity programs, but we also invest in other strategies when they make sense given the macro context and in order to diversify the risks.

Reza Ghodsi
Darius Capital

I am Reza Ghodsi, Managing Partner and Founder of Darius Capital. Darius Capital is an investment advisory firm, specialized in hedge fund investing since 2004. We help institutional investors build their hedge fund allocations in the most efficient way. This includes manager research and selection, due diligence, portfolio construction and rebalancing, risk management. We have eleven people in the firm - three based in New York, and eight in Paris providing independent support to our institutional clients.

We have just entered into a strategic partnership with Natixis Global Asset Management, a leading asset manager. While we will remain autonomous and retain full control of our advisory decisions, in NGAM's multi-boutique model we will be able to capitalize on a global distribution capability for our customized hedge fund portfolio services.

We construct customized portfolios for our institutional clients and also perform due diligence and manager research and optimization for them. We are not asset managers ourselves, we concentrate on advising our institutional clients who, in aggregate represent over $10 billion in direct hedge fund investments.

Patrice Bergé-Vincent
AMF

I am Patrice Bergé-Vincent, I work for the AMF - the French financial market regulator, where I am Head of the Asset Management Regulation Policy Division. This AMF's division is not in charge of regulating on an operational basis the asset management in France, but of designing the strategy for regulation, i.e., thinking of the ideal regulation of asset management for France.

Alain Dubois
Lyxor Asset Management

My name is Alain Dubois. I am the Chairman of Lyxor Asset Management. We are an asset manager regulated in France according the UCITS directive. We were created in 1998 and manage now approximately $130 billion.

We are a specialized asset manager, and that means we are not providing general investment solutions, but focus on creating specific and targeted solutions. We have a very strong franchise in risk management. Risk management is really the DNA of our firm, together with research-based solutions.

Our business can be divided into three types of offerings: ETFs for $55 billion, structured and continuity solutions for $48 billion, and alternative investments for approximately $28 billion.

Anne-Sophie d'Andlau
CIAM

My name is Anne-Sophie d'Andlau. I am Co-founder and Managing Partner at CIAM. CIAM is a single hedge fund manager based in Paris, and regulated by the AMF. With my 2 partners, Catherine Berjal and Frédérique Barnier, we all have backgrounds in the hedge fund and banking industry, and we launched the company last year. We manage one onshore fund, a Luxembourg SIF, specialized in pure merger arbitrage. We only invest once deals are officially announced, in Europe and in North America.

We started the fund last September and now manage $50 million. In February of this year, we received additional seed capital by IMQubator, the Dutch seeding platform backed and financed by pension fund APG.

David Lenfant
Laffitte Capital Management

I am David Lenfant, one of the four founding partners of Laffitte Capital Management. We all are former proprietary traders. We created from scratch the equities and equity derivatives arbitrage desks at a French bank. We were managing for this institution more than Euro 10 billion within three businesses – index arbitrage, merger arbitrage and equity finance.

In 2007 we decided to set-up our own company based in Paris and we chose an onshore regulated structure for our funds, which was not a natural move at that time. We focus on event-driven funds and manage two UCITS funds. One is a pure merger arbitrage fund. The other one is more involved in special situations trades. We manage now more than $300 million with significant inflows over the last 12 months proceeding from various investors typology.

Nathanael Benzaken
Lyxor Asset Management

My name is Nathanael Benzaken. I work with Lyxor Asset Management, where I am responsible for the development of the managed account platform. The Alternative Investment business at Lyxor amounts to approximately $28 billion, out of which the managed account platform represents in excess of $12 billion. This platform is domiciled in Jersey (offshore). The platform invests across the entire spectrum of investment strategies and consists of approximately 105 managed accounts as of today. Most of our investors are institutional investors on a global basis.

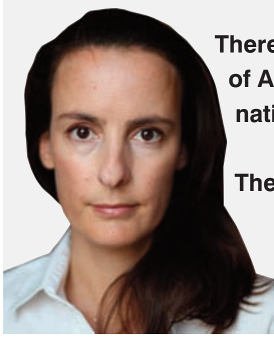
Matthias Knab **What is the current demand for alternative investments and hedge funds from French end-investors? Or are your assets mostly coming from other countries?**

Anne-Sophie d'Andlau Our investor base is in Europe, mostly continental Europe. 90% of our investors are non-French, based in Switzerland, Luxembourg, Belgium and the Netherlands. We are confident however that we will attract also some U.K. based investors very soon, as more of them are willing to invest on the continent, since there are more and more funds to look at, and perform due diligence on.

Matthias Knab **What do you think attracts these people to France-based funds now?**

Anne-Sophie d'Andlau I think there is a real momentum building up, in particular within the Paris financial city, through the initiatives of AFG and Paris Europlace and the road shows they are organizing, or through the set up of the national seeding fund EMERGENCE that Philippe had already mentioned.

There have been recent hedge fund launches in Paris that before would have taken place in London. We are very happy about this momentum that has started recently.



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Anne-Sophie d'Andlau

Nathanael Benzaken Similar to Anne-Sophie's fund, Lyxor's assets come mostly from international clients and only about 11% from France, which is relatively low for an organization based in Paris. We do experience significant growth from institutions based in Northern Europe - the U.K., Netherlands and Scandinavia, as well as from North America and Asia (Japan primarily).

I also concur with Anne-Sophie's observation about the development of the French market. In my conversations with managers, prospective managers and in general finance professionals in France, I can think of a scenario where Paris may well become a fairly attractive place for new hedge fund managers. We are talking about potentially several years down the road and of course several things have to happen to lead to this. The primary catalyst would be the banks' reduction of risk in their prop trading activities. It is certainly an incentive for traders to go out and set up their own operations, possibly hedge funds.

Their next decision will be then where to set it up? Historically, most European managers would have opted for London for their headquarters. But I hear that some people think that the latest developments in the U.K. – "non dom" regulation, increased income tax rates etc. - lead them to look for alternatives. The last consideration to have in this decision process is quality of life: you are left with Paris, Geneva or Zurich. All in all, I would say the alignment of stars is getting a little bit more in favor of France, and we very much expect to witness a trend developing in new hedge fund set ups here going forward. Obviously, we would need the support of the local regulation to make Paris an attractive place.

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Nathanael Benzaken

Philippe Paquet At NewAlpha, we are dealing with investors at two levels. The first one is for our seeding vehicles, which are basically very concentrated fund of hedge funds. For our own seeding vehicles, we mainly have business relationships with insurance companies and family offices, that want to get exposure to talented emerging managers. Second, we are in contact with traditional hedge fund allocators for the managers we partner with. Here we act as a capital introduction team for our seeded managers.

At the moment we are engaged in six active partnerships with emerging managers who are widespread all over the world - Singapore, US, London, and Geneva.

For both types of investors, we observe an increasing demand for hedge funds.

All hedge fund databases and industry surveys say, the industry is moving towards new peaks in terms of assets. We see most growth coming from North America, where our managers are raising significant amounts of assets, but also in continental Europe, particularly in Italy, Germany, and to some extent also the U.K.

To add some numbers, only one year ago our six managers had collectively less than $400 million under management and as I mentioned before they now manage $2 billion – growing their assets five times in one year is pretty impressive.

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Philippe Paquet

Matthias Knab **Do you know where the asset growth was coming from?**

Philippe Paquet These managers are exposed to different markets and different types of investors - private banks, funds of funds and other asset managers, often not funds of hedge funds, but traditional mutual fund managers or U.S. institutions.

Also interestingly, for some of those managers it turned out to be a vital aspect for their growth and business development whether they had set up UCITS funds or not. I am thinking about a long/short manager based in Europe who had tremendous returns in 2010 and just announced he is hard closing his fund to new investments, after hitting its $1bn capacity in less than 6 months. The UCITS format was clearly a success model for him, a very strong recipe for growth. Another macro manager from Orange County, California, did also achieve very strong to growth through managed accounts, which are another format appreciated by investors, especially in the US and among the pension fund community.

Regarding the French market, there is still a large deal of cautiousness regarding hedge funds in general. But eventually, we managed to launch successfully another product in early 2011, with nine investors, seven insurance companies and two family offices.

Unfortunately some of the investors we meet here in France like retirement schemes or mutual insurance groups are telling us straight out that they are basically banning any new investment in alternatives, and that may last for some time.

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Philippe Paquet

Matthias Knab **What do you think is the reason for that?**

Philippe Paquet Well, the 2008 crisis negatively hit French investors who were surprised by the gates, the side pockets and the bad returns of hedge funds. What happened is that in 2004 or 2005 many second tier institutions started to put some money to work in alternatives, and they were very disappointed just two to three years later. These institutions are usually managed on a mutual basis with representatives for example, from the trade unions, and many of them have since banned any investments in alternatives. So, NewAlpha is doing very well, except in France where we find the attitude of institutional investors a bit restricted at the moment.

Pierre Lenders I just wanted to concur with Philip on the general appetite from the French institutions that remains quite muted vis-à-vis alternative products. There are a number of factors. Investors' behavior is influenced by memory and P&L. Now, if you take for example, hedge fund investors in the U.S., who have been in the asset class for 10 or 15 years or more, not just the last three or four, those people have had a lot of good years. Even if 2008 was not particularly welcome, their overall experience and memory from being invested in our industry is vastly favorable. They saw the 2008 drawback as an opportunity to add exposure.

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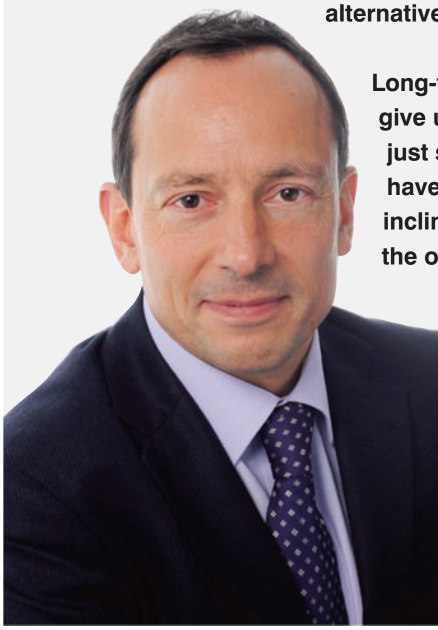
This is obviously quite different in France, where most people started with hedge funds not such a long time ago and therefore could still be in a flat or slightly negative territory. As we all know, you shouldn't invest based on past performance. Why is it particularly unfortunate now? Because it is actually quite likely that those alternative products are about to outperform the other asset classes again, given the macro environment ahead, and most French investors will only have a small fraction of that outperformance given what's in their books.

This being said, things are gradually improving, as more and more of the people who make the decisions, at various levels, come with the kind of market experience allowing them being more comfortable with alternative products.



Long-term investors should always favor transparency over liquidity, but they can only give up on liquidity when they can use transparency to know their risk factors, and as we just said, they are still building that bridge. That may be another reason why investors have not been so active regarding alternatives in France. They are probably more inclined to prefer liquidity and, therefore, their performance has not been so great. On the other end of the spectrum, people who have been exposed to distressed, or mortgages or credit in all kinds of forms for the last eighteen months are very happy with their returns.

But the major roadblock preventing a wider usage of alternative investments by most institutional investors in Europe is Solvency II and the very unfavorable "by default" treatment of alternative products in terms of capital requirement within the standard model.

Pierre Lenders

This is obviously quite different in France, where most people started with hedge funds not such a long time ago and therefore could still be in a flat or slightly negative territory. As we all know, you shouldn't invest based on past performance. Why is it particularly unfortunate now? Because it is actually quite likely that those alternative products are about to outperform the other asset classes again, given the macro environment ahead, and most French investors will only have a small fraction of that outperformance given what's in their books.

But when there is less comfort in terms of understanding the drivers of performance, there is a bigger tendency to decide based on recent past returns. This attitude of many institutions is therefore understandable, yet unfortunate. This being said, things are gradually improving, as more and more of the people who make the decisions, at various levels, come with the kind of market experience allowing them being more comfortable with alternative products.

Even more so since alternative products are also now meeting institutional requirements in terms of transparency. Of course, it takes people on the receiving end of that transparency to be equipped in order to process the numbers they receive and translate them into valuable information about risk factors, correlations and styles, not just static and vastly useless asset class categories. Just getting granular raw information maybe adds to a feel good factor, but it only really helps in terms of making intelligent investment decisions once you build an efficient way to process it. It takes time to build it, and even more so around underlying hedge funds positions as they are very dynamically managed.

The other big institutional theme is of course, liquidity. For certain strategies it will not be a problem to perform while being transparent and liquid, but there are a number of strategies where it is difficult to achieve everything together at the same time: strong performance, transparency and liquidity.

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But the major roadblock preventing a wider usage of alternative investments by most institutional investors in Europe is Solvency II and the very unfavorable "by default" treatment of alternative products in terms of capital requirement within the standard model. I'm sure we'll talk about it later.

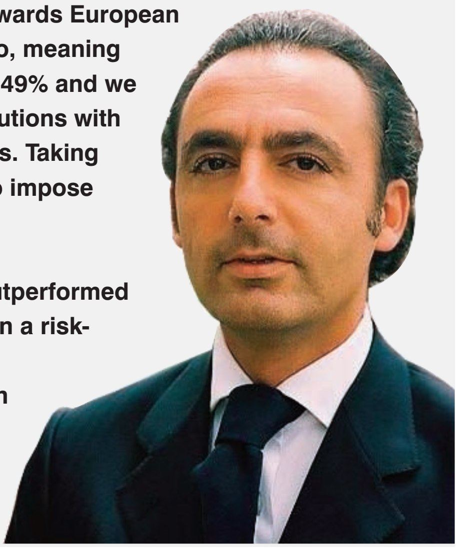
Reza Ghodsi I agree that we need a change of culture and at the very least more education when it comes to hedge fund investing. A lot of institutional clients have little expertise in alternative assets at the board level and they lack the operational capabilities that investing in hedge funds requires. Our role is not only to complement their resources, it is also to establish a dialogue with the investor in order to clarify what the risk factors are and where the performance drivers come from in the various alternative strategies.

It seems that institutional investors, in France in particular, have misconceptions about hedge funds. Institutions cut back on their allocation after 2008, and it is true that the asset liability mismatch in many of the French funds of funds was particularly absurd, leading to liquidity issues. But the same institutions constantly undervalue the full level of risk they have in their long equity portfolio, and now, in their fixed income portfolios as well.

It is now clear that the full amount of risk an insurance company is carrying in its fixed income portfolio has been undervalued, and the magnitude of that risk is much larger than what a portfolio of hedge funds carries. We are seeing what is happening in Greece and other countries of peripheral Europe, not to mention the United States. It should act as a wake up call for a lot of institutions, similarly to what happens after each stock market crash: hedge funds act as a useful diversifier in an institutional portfolio.

Unfortunately, to be fully effective, this diversification using hedge funds will involve some regulatory changes. We have Solvency II coming in which is basically pushing institutions towards European government bonds, and from a capital adequacy ratio these will be charged at zero, meaning any kind of leverage is acceptable. Hedge funds on the other hand are charged at 49% and we feel this is totally inappropriate. We build portfolios of hedge funds for some institutions with levels of volatility and downside risk that are comparable to fixed income portfolios. Taking into account the diversification impact at the portfolio level, it makes little sense to impose such capital requirements to a diversified hedge fund allocation.

There is a case to be made that a diversified basket of hedge funds would have outperformed most other asset classes over the last 5, 10 or 15 years, either on an absolute or on a risk-adjusted basis. But it is very hard to convey that assessment at the board level of institutional clients in France, where in most cases hedge fund risks are overblown together with a misplaced sense of comfort with the equity and fixed income allocations.



Reza Ghodsi

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Pierre mentioned liquidity and transparency, which are some of the drivers behind the shift towards managed account platforms, UCITS or even alternative ETFs. We are using these liquid vehicles in our hedge fund allocations to minimize some of the risks and increase the level of comfort our clients have with their hedge fund allocations. While we recognize that these solutions come with a specific set of issues, they can be very useful layers in hedge fund portfolios and we have dedicated specific resources to evaluate them in depth.

David Lenfant In addition to transparency and liquidity, most investors we met, ranging from family offices to institutions, have a strong demand for capital preservation. Either managed account platforms or UCITS funds can address this demand. Specifically, by construction UCITS funds tend to be reassuring for clients as they invest into diversified portfolios embedding moderate leverage.

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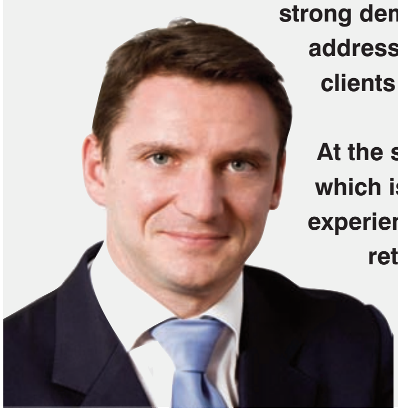

At the same time, we should better not lose track of the roots of the hedge fund industry which is to deliver true uncorrelated performance. Since we have set up our company, our experience is that institutional investors, the French ones as well, will invest into absolute return funds if a manager truly achieves this absolute return objective by creating alpha and not packaging up beta and selling it at alpha prices.

David Lenfant

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Patrice Bergé-Vincent

It is a good development for France that more asset management companies are being set up here, and also the quality of regulation can be one factor of this momentum.

When we were translating the UCITS IV directive into national law, as a regulator we aimed in the first place to protect retail investors and at the same time allow French managers to benefit from the significant range of opportunities the new Directive offers. The way to do that was actually clearly distinguishing retail from institutional investors. Therefore, we wanted to keep all opportunities of the UCITS IV directive for the sake of the managers and also focus our regulation on marketing/selling practices to retail investors.

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We also used this law making process to simplify the regulation, because - I must confess - the French regulation was not easy to read and to understand from foreign perspective. Therefore, we simplified the regime by introducing two parts - part one, the UCITS or "OPCVM coordonnés" as we say in French, and part two, the other investment funds.

Furthermore, the new AIFM directive has to be transposed by into national law by July 2013, which is tomorrow morning from a regulation policy point of view. In this process we will finalize our efforts of clarification, simplification, and streamlining of the French regulation of asset management.

In the process of this transposition of the AIFM directive, we intend to launch a debate on the development of alternative investment management in France, which will include hedge funds and private equity funds. The aim is to develop an autonomous industry here, where the funds will ideally be set-up in France or in Europe with the management company operating as well from France.

Patrice Bergé-Vincent

We also used this law making process to simplify the regulation, because - I must confess - the French regulation was not easy to read and to understand from foreign perspective. Therefore, we simplified the regime by introducing two parts - part one, the UCITS or "OPCVM coordonnés" as we say in French, and part two, the other investment funds.

Furthermore, the new AIFM directive has to be transposed by into national law by July 2013, which is tomorrow morning from a regulation policy point of view. In this process we will finalize our efforts of clarification, simplification, and streamlining of the French regulation of asset management.

The AIFM directive is mainly about professional funds. Therefore, when a financial product like an investment fund is strictly reserved for professional investors, the regulator has no strong objective to protect those institutional or professional investors. This is why we can be much more flexible here. In the process of this transposition of the AIFM directive, we intend to launch a debate on the development of alternative investment management in France, which will include hedge funds and private equity funds. The aim is to develop an autonomous industry here, where the funds will ideally be set-up in France or in Europe with the management company operating as well from France.

Matthias Knab **David, I believe you have a good example to share of how much regulations can actually differ when an European directive is actually translated into national law.**

David Lenfant Correct, many UCITS features can differ from one country to another. It is very important for investors to understand that a UCITS vehicle is slightly different in France, Luxembourg or Dublin in terms of guarantee of the assets or risk control. For example, you can either use a linear model or a probabilistic model to compute the leverage limit. And even the Value at Risk formulas differ country by country.

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David Lenfant

We have ongoing discussions with the AMF when seeing these kinds of discrepancies. For example, a Luxembourg domiciled fund may have less favorable liquidity terms for the investor or a greater leverage due to the application of the European UCITS directive into the state's law. At this point the AMF tend to be as comprehensive as possible to understand our clients' needs. It is crucial that France based asset managers fight with their European competitors within the same framework.

Distribution and marketing considerations are also a key point when implementing new regulation. When we launched our first fund we used an ARIA vehicle (regulated French fund with more latitude in terms of leverage and concentration). The idea was excellent, to manage funds in a regulated structure using leverage. Nevertheless, we found out that a lot of clients could not invest in this kind of vehicle, because it was limited to the trash ratio of their portfolios. We then naturally switched to the UCITS framework. Definitely this vehicle is more flexible and opens distribution of absolute return funds to a larger range of investors.

Matthias Knab **Can you maybe also share your experience regarding the safety of assets under the French regulations?**

David Lenfant Yes, our first fund had Lehman Brothers as prime broker. Following its default, some of our assets have been frozen. I remind you that in France a custodian has the obligation to return the assets at any time. Moreover this is an obligation of result and not an obligation of means. Given the French regulation our clients recovered their initial investment plus a positive performance due to our active management of the remaining positions. This situation is certainly unique in the world given the circumstances. Finally, we became a school case of the protective French regulation toward investors.

When we meet clients today and during an in-depth due diligence process, we make mention of this episode, which is part of our story. They all, even the ones based in London, Luxembourg or Switzerland recognize the safety of the Paris Place.

Indeed the strong French regulation may also contribute to the attractiveness of this financial place for absolute return funds.

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David Lenfant

Alain Dubois Maybe it is an opportunity to say a few words about NEWCITS, even if I am told by all the professional organizations that NEWCITS is a word that nobody should use.

I mean, we very much like the UCITS world and manage hundreds of them in France, Luxembourg or Ireland. We are very much in favor of the UCITS framework, but there may be a sort of a false sense of security around UCITS where investors may believe that the fund is safe just because it's a UCITS. There is some risk of miss-selling the regulation.

Also the AIFM directive seems to be a very good directive. I expect the AIFM Directive will be very successful, because it is not overly prescriptive, while at the same time making sure that the asset manager has put in place adequate risk controls, liquidity controls, disclosure to investors and control of conflicts of interests. It has the ingredients to be well received by investors.

The world has come a long way. You don't even need to go back that far in time, when the sales and product development people were telling you that regulated structures would not be well received by investors, because the funds would look very different from Hedge Funds. Nowadays, it is the opposite: investors are happy to invest in Hedge Funds that are more regulated. But as with all investing, nothing can replace a good due-diligence and the investor should look at the fundamentals, how a fund is managed and how the risks are effectively monitored and controlled, and not only view a fund from a legal standpoint.

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Nathanael Benzaken

Going back to the discussion about transparency for a moment, there is no doubt that, in a post-2008 and a post-Madoff crisis world, transparency is a "must have". Investors demand more transparency whatever the format of depth of information. Although there are various routes to access some transparency, managed accounts are of course, the ultimate way to get it in a standardized manner both in terms of metrics formula and in terms of frequency (daily or weekly for instance), not only at each managed account level but also at the managed account portfolio level.

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As far as liquidity is concerned, I am a little bit skeptical. There is this tendency to think that liquidity comes always with a premium, which is maybe true in general. But sadly liquidity can very much behave like shorting an option. The main reason why so many funds did gate and did create side pockets in late 2008 was that they were basically trying to compensate for the lack of opportunities in the liquid market at a time when the market volatility was low, not to say very low (the VIX went briefly below 10 at some point) by loading up illiquid assets hoping to find some pricing inefficiencies. And all of a sudden volatility spiked up causing, amongst other things, liquidity to dry up, exacerbated by forced and fast deleveraging imposed by prime brokers. Some managers were trapped, they had to gate or worse suspend liquidity sometimes, sidepocket, and write down most of these "toxic" trades.

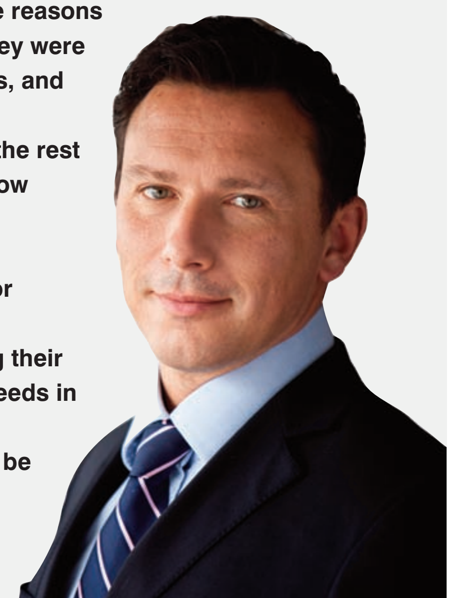
In the aftermath of the crisis, some would say that some of the most illiquid strategies did very well in 2009 and to a lesser extent in 2010.

I am just checking the VIX index and it is trading at 16, which is six points above the lowest level pre-crisis. As you may recall, there is an inverse correlation between volatility and leverage – the higher the volatility, the lower the need for using leverage. At Lyxor, we monitor leverage on a daily basis and we can observe that most strategies have resumed the same level of leverage as pre-Lehman bankruptcy. To put it differently, adjusted to volatility, the current leverage level is higher than pre-crisis.

It means that we are in an environment where you do not necessarily need to go to very illiquid strategies to hope to get exposure to market opportunities.

Part of our mission at Lyxor is to continue educating the French institutional investors about hedge funds, their expected benefits and how to mitigate the inherent risks. We too often hear that the reasons not to invest are "bad" reasons - because they were either exposed to Madoff or they were gated, side pocketed in 2008. All those reasons are non-investment related reasons, and actually the only reason why institutional investors should invest in hedge funds is specifically for investment related reasons: it is non-, or at least less-correlated to the rest of their investments, there is a need for absolute-return-like investments in a very low interest rate environment, or there is a search for a better downside risk control.

What you do not like is fraud, opacity, black box, toxic actions like side pocketing or gating. We do see a trend among large institutions like big pension funds in the Netherlands, U.K., Japan, the U.S. and Canada, where they basically are redeeming their funds of hedge funds and direct investments into hedge funds to reinvest the proceeds in managed account solutions. The main reason for this trend is that they want and sometimes need to have exposure to hedge fund returns, but they cannot afford to be trapped into 2008 type of events any more.



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In the aftermath of the crisis, some would say that some of the most illiquid strategies did very well in 2009 and to a lesser extent in 2010, which is factual. But we have to bear in mind it is primarily due to a mean reversion, re-pricing process of quasi-distressed assets which were under tremendous selling pressure in late 2008. Technical analysts would compare it to a "V shape" type of correction.

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It means that we are in an environment where you do not necessarily need to go to very illiquid strategies to hope to get exposure to market opportunities. The current volatility environment potentially generates enough "vibration" in the market to create enough inefficiencies to be captured or arbitraged by talented managers.

I am not at all saying you should not go to illiquid strategies, there are certainly very good managers out there exploiting such opportunities. Investors should be selective with the managers they allocate to and they certainly should be conscious of the fact that if there is a 2008-like event again, they may feel the same pain.

So, regarding the investors' experience with 2008, Pierre put it right when he said that French institutions were traumatized, amplified sometimes by an unfortunate timing (some started allocating to alternatives literally right before the crisis).

We believe that part of our mission at Lyxor is to continue educating the French institutional investors about hedge funds, their expected benefits and how to mitigate the inherent risks. We too often hear that the reasons not to invest are "bad" reasons - because they were either exposed to Madoff or they were gated, side pocketed in 2008. All those reasons are non-investment related reasons, and actually the only reason why institutional investors should invest in hedge funds is specifically for investment related reasons: it is non-, or at least less-correlated to the rest of their investments, there is a need for absolute-return-like investments in a very low interest rate environment, or there is a search for a better downside risk control.

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Pierre Lenders

No doubt that liquidity comes and goes and that products that have been illiquid in the past are more likely to become illiquid again in the future. Everybody knows that. But let me add here that illiquidity is not just an attribute of the instrument; it is also a function of the people who participate in that instrument.

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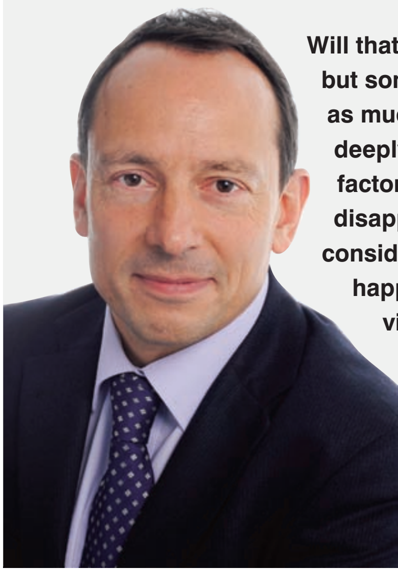
If you remember who was holding all these papers that became toxic in 2007/2008, it was mostly people who should have had nothing to do with that kind of paper in the first place. Why did daily liquidity money market funds embark into holding subprime papers? I think a lot of that has changed now, with most of those assets still parked into bad banks, these will never be forced sellers, by design, while only a fraction has been redistributed and is in the hands of sophisticated and still mostly unleveraged investors who do not rely on rating agencies but who do their own analysis and have staying power. So the same adverse environment for the asset class will create far less disruption next time around, if it happens, and illiquidity won't be such a problem.

Adding to what was said about Solvency II, I think it is probably the main drawback today. Even if a lot of the investment proposals out there have a potential to yield more than what you have seen in the last 18 months or so, if you want to remain in liquid, transparent, safe, and capital preserving strategies, that means you can only reasonably aim for say high, single-digit returns. This is a fantastic investment economically speaking; however, not a reasonable investment decision for an institutional investor who looks at the 49% +/- 10% regulatory capital requirement against holding such investment which comes with the "standard model".

So moving away from the "standard model" and getting into "internal models" is needed if one wants to benefit from the inherent convexity of alternative products. That convexity, or ability to de-correlate from markets when they go significantly lower, is obvious historically; if not at a single hedge fund level, at least when it comes to multi-strategy, diversified fund of hedge funds.



Will that convexity remain? Alternative managers have proven it again and again in the past, but some look at 2008 and say they have failed. First of all, indeed, many lost money, but not as much as what static positions in risky assets would have brought. And also, if you analyze deeply what happened in 2008, you know that a lot of what aggravated the picture then are factors that would not likely represent themselves, such as prime brokers suddenly disappearing from the picture, freezing assets and/or taking the financing away. And even considering a similar stress again on banks and liquidity, some of that could theoretically happen again to some extent, the consequences on alternative products would not be as violent as in 2008, for the simple fact that, as Nathanael mentioned, we have less leverage now in the system and, most importantly, with transparency, now you know that people will be much more disciplined in terms of how their portfolio is built vis-à-vis their liquidity obligations, as they now they are being observed, and that is a very healthy risk mitigating factor.

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One of the main advantages of transparency is that it forces much more discipline and therefore you would avoid the pre-2008 situation that aggravated those events. All this to say that this industry has never been safer than now, but still it is taxed at 49 plus capital requirement without any convexity benefit being recognized.

Obviously, it is proven by numbers that it is not the case. So, we know that some institutions have gotten well ahead in terms of building internal models. The numbers probably will land somewhere in the 20%, 25%, or 30% area, which is still probably quite conservative but starts allowing for considering those investments even on the basis that they would yield single digit returns.

Philippe Paquet

My experience has been that if you come to investors, even those who suffered in 2008, and you do have the right solutions and the right answers to their questions and worries, basically they will allocate money to alternatives. We like managed accounts, and hedge fund seeding is also a very good way to access transparency in any way investors want it.

Our product transmits managers' portfolio numbers without any loss of data and in real time - transparency from the manager is part of hedge fund seeding agreement. When you provide early capital to manage to an emerging manager, you can automatically get the full transparency on their portfolio via raw data or the more aggregate risk and exposure numbers.

But maybe the thing our clients value most is actually performance, which in the case of hedge fund seeding as - let's call it sub-asset class within the alternative world - provides two sources of returns on performance to the investors. The first one is of course the emerging manager's portfolio return, which were subject of many academic studies proving that a younger, emerging manager provides in general higher returns than more established players, because portfolios are smaller, the managers are more nimble and more motivated. They have also a substantial part of their net-worth in their funds, so when the times are bad, they generally get more cautious and manage to preserve their wealth. From that perspective alone, accessing the emerging manager space is a good source of extra return compared to the rest of the industry.

On top of the portfolio return, investors who seed an emerging manager can also profit from the development of the managers. I am in contact with investors all day along, and this is where investors now have the most interest as it can provide a very attractive internal rate of return. For example, if we provide $50m acceleration capital to a carefully screened manager who already has $50m, this will take him over the $100m threshold from where his development can continue to a whole new level. Then, if the manager develops and reaches, say $1 bn within 5 years, which is quite common, then, the extra net return to the investors is approximately 6% per annum.

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Philippe Paquet

Matthias Knab **How many people do you screen in order to make one investment and what are your criteria in order to select the manager?**

Phillipe Paquet

Since NewAlpha was launched in 2003, we analyzed 1,200 seeding projects. Over the past year alone it was 300.

We get applications for seed capital via prime brokers, with the majority coming directly from the managers to us. We receive a lot of applications from the U.S. and from Asia. The space is really mushrooming there and quite a few very talented and experienced people are launching funds in Singapore or Hong Kong. Actually one of the very last seeding deals we announced in May of this year was with a Singapore-based manager.

When selecting a manager we look at a blend of three criteria: the returns or past returns of the manager and the risk profile. We also look very carefully at the growth prospects of the managers and the last set of criteria concerns the entrepreneurship, the founders, and the key people within the firm. We have several phases of due diligence and questions that are needed to convince us that this manager will be one with the most potential, even one of the few hedge funds stars of tomorrow.

Anne-Sophie d'Andlau

I wanted to come back on some issues around the legal framework of a fund. When you launch your fund, you have the choice between a number of legal vehicles. When you are based in France, you have a strong regulator that is well regarded by foreign investors, so this is a real asset for our asset management company. But besides transparency and liquidity, investors also want performance.

Performance with a UCITS wrapper is not that easy to make. We have now sufficient background and track records within the UCITS framework to see that most UCITS funds underperform the main flagship funds. Even though investors are looking for capital preservation, they also want some returns. If you give them 4% or 5% return per annum, this is fine, but it is not going to be fine forever.

I go to a number of conferences and a lot is being said about the two ends of the spectrum, offshore and UCITs funds, but we very often forget that there is a middle ground, which is the onshore wrapper (Luxembourg SIF or Irish QIF for instance).

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In my view, these wrappers are very efficient and will grow going forward, because they are a convincing way to provide performance plus security, liquidity plus transparency. And that does not mean those onshore wrappers are necessarily leveraged. At CIAM for instance, we do not use leverage. And we have more flexibility than in a UCITs wrapper, like the fact we can have a more concentrated portfolio, a conviction run portfolio.

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Philippe Paquet

This type of flexibility comes back to what I was saying about the AIFM Directive, which is really a very good framework for our business.

Patrice Bergé-Vincent

I like when you say that the AIFM is a very good directive, because it has been disagreed and challenged at the very beginning. I think there are three wrappers for collective investment schemes and they all develop fast. The first one would be UCITS. These retail products in fact could be simplified and made less complex. There is a MiFID review, which is the occasion to have a look at the automatic classification of all UCITS as non-complex products. Indeed, the French regulator thinks that some UCITS are complex and difficult to understand for retail investors. They should not be marketed without adequate advice. The alternative would be to change the Eligible Assets Directive and have really simple UCITS that are reserved to retail inventors, with maybe less performance, but more safety. However, this alternative would suppose to (re)open lengthy debates.

Then you have the AIFMD that is not a product Directive except some incursions in product regulation (e.g. regarding the transparency and some contractual limits to the leverage effect). The AIFM regulates managers, the service providers and the custodians/depositaries.

AIFM could lead in the future to the development of two wrappers. On the one hand, AIFs or Alternative Investment Funds that are retail and regulated on a national/domestic basis in Europe. They could be very close or very similar to UCITS or also be somewhat different, but distributed only on a national basis. On the other hand, I believe we are going to have AIFs that are purely professional funds. I believe that in some years the distinction between offshore and onshore AIFs will blur because, from July 2015 on, the manager of a non-European AIF will have to apply all the directive provisions if it wishes to market to professional investors in Europe with a passport across the 27 Member States.

Therefore, offshore AIFs will have to be regulated as if there were AIFs established in Europe, if they are to benefit from the AIFM passport.

We also have to discuss the sort of reluctance of institutional investors to invest in hedge funds and alternative funds. I think that there are two issues behind that, which are in the first place the prudential (Basel III) rules that are going to make alternative investments more costly for institutional investors in terms of capital or liquidity requirements. Secondly there are also some buying restrictions for institutional investors in France, which should be reconsidered at the occasion of the AIFMD transposition.

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Perhaps we should look at the buying restrictions for institutional investors and relieve some, because these funds are going to be promoted only by managers that are fully regulated in Europe.

At the occasion of the transposition of the AIFM directive, one of the issues we should raise with ACP (the prudential supervisor) here in France is to see whether we could extend the buying powers of institutional investors so that they can buy in hedge funds, private equity funds or some other alternative funds, and not only UCITS, as it would be a mistake to consider that only UCITS are safe for institutional investors, I believe.

Patrice Bergé-Vincent

Indeed, hedge fund managers are regulated or are going to be regulated in Europe with more harmonization - because there will be additional, level two measures coming that will be very detailed and have less scope for divergence of interpretation - and the AIFM Directive package becoming applied in a similar way into the 27 Member States. Perhaps we should look at the buying restrictions for institutional investors and relieve some, because these funds are going to be promoted only by managers that are fully regulated in Europe.

At the occasion of the transposition of the AIFM directive, one of the issues we should raise with ACP (the prudential supervisor) here in France is to see whether we could extend the buying powers of institutional investors so that they can buy in hedge funds, private equity funds or some other alternative funds, and not only UCITS, as it would be a mistake to consider that only UCITS are safe for institutional investors, I believe.

Alain Dubois

That division of the UCITS framework between simple UCITS and complex UCITS would be a good thing. I know that most people in the profession wish to keep the unity of the UCITS framework, but we are seeing that it is not possible.

I think it is a good thing that we separate simple and complex, because the alternative would be to overly restrict what UCITS can do. We are seeing that no regulator in Europe really wants to allow complex UCITS to be marketed to mass retail investors.

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Alain Dubois

I believe that there is some room at the European level between AIFM, which is for professional investors, and simple UCITS that are really for mass retail. Between them will be complex UCITS, offered to professional investors and to retail investors that are prepared to invest in a fund at least something like 10,000 Euros, which seems an appropriate threshold.

I guess we have a choice between staying with more and more restrictive “one size fits it all” UCITS framework, or having a UCITS framework that stays a little bit wide and open, but differentiates between simple and complex.

Matthias Knab

Patrice, as the French regulator, together with the other initiatives like Finance Innovation, Paris Europlace etc., is it part of the AMF's efforts to help Paris or the French financial markets to compete with other places like Switzerland or London in order to attract alternatives managers and to foster the domestic French alternatives industry? How do you think France will develop regarding this question in the next couple of years?

Patrice Bergé-Vincent

For us as the French financial market regulator, it is a ”necessity” to promote the installation of managers in France. We are not modest in this respect, we think that we regulate managers very carefully, including UCITS or retail investor fund managers.

We prefer to have more managers, more management companies in France. We also understand that to attract more management companies in France, we have to enable them to benefit from some flexibility where appropriate. That is why we are considering more flexibility regarding the regulation of the product and the manager but, as a corollary, we are going to be tougher on the selling practices for example when a very difficult to understand or unnecessarily complex products are being sold to retail investors.

On the professional investor side, this is less a necessity. The regulator’s first mission is not to protect professional investors, because they are capable of due diligence, and so they should be able to protect themselves if they perform right and careful diligence before investing in a product and on an ongoing basis.

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Patrice Bergé-Vincent

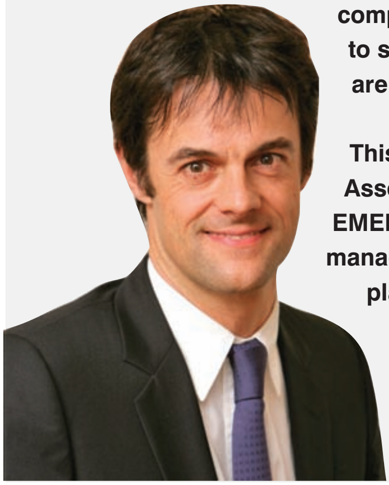
That means we can be very flexible regarding regulation of alternative fund managers who strictly cater to professional investors. Then we can be very flexible so the French financial district can be very attractive and able to compete with large alternative asset management locations. This could also be to some extent complementary with our efforts on the retail investor side, because also there we want a large range of excellent product providers, including alternative asset managers that diversify into retail as well. So, all French asset management stakeholders are committed to attract successful and promising players to France.

When it comes to the technical skills and the ability of the AMF to understand also complex products, areas like investment techniques, strategies and risk management, I do believe that we have a good team at the AMF. We have experts who are able to understand very difficult issues. This capacity of the AMF is actually getting more and more recognized also at the international level.

Philippe Paquet

In this context let me add some details on the exciting new initiative about the French national seeding fund called EMERGENCE that was announced last week at the Paris EUROPLACE Forum. Patrice's comments on regulation and the future development of our industry is extremely positive, and what is needed now to take advantage of the regulatory framework in order to develop young managers and to make France a good place for alternative managers is seed money.

Since 2003, on average there are 45 entrepreneurial investment managers launching every year in France from all asset classes and styles. Out of these 45 we find about 20 who are alternative managers on average. Out of these 20 just about two are will be growing to manage more than 100 million Euros.



This means that there are plenty of talented and entrepreneurial managers launching their companies every year, but only a very small part of them is reaching the critical size required to speak to investors and to also get some traction internationally with larger investors who are also allocating to emerging managers like APG, or CalPERS in the U.S.

This is why this initiative driven by AFG (Association Française de Gestion, the French Asset Management Association) and a few other groups has emerged. Before the EMERGENCE national seeding fund was actually announced, we already identified about 35 managers eligible to this seeding vehicle. Out of those, 10 are French nationals working in places like London, New York or Connecticut who would potentially come back to France to set-up their company or an office here. I believe that there is even much more potential than that.

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Reza Ghodsi

While we are established in France, we opened a New York office in 2007 and the majority of the managers we track are in the US. We meet with over 130 managers every year. It seems that London has lost some of its appeal because of a change in what was a very favorable tax treatment. Paris would have a lot of assets in attracting managers, both from a professional perspective and a personal standpoint. But it will be very difficult to become a meaningful hedge fund center without a strong local investor base. And as long as the environment is unfavorable, due to regulatory restrictions like Solvency II, or because of misconceptions regarding hedge fund investment, managers will tend to remain close to their natural investment base.

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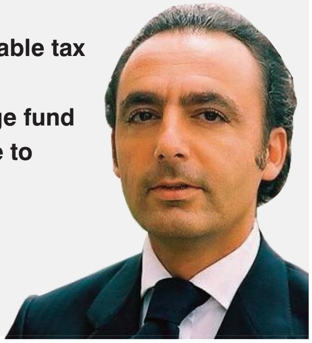

At Darius Capital, we see our role as an extension of the client investment team. Our role is to advise institutions on their alternative investments and it includes working with them at trying to identify what sets of risks are associated with their hedge fund investments – and what risks will be diversified at the portfolio level. Given that all our portfolios are built specifically to meet the requirements of our clients, we are very well positioned to establish a constructive dialogue with our investors. Clearly, better education leads to a better acceptance of hedge fund risks and rewards.

Today, investors want to be more involved, to be in the driver's seat. We see it as a strong and lasting trend and it plays right into our positioning as investment advisors. Our main objective is to build robust customized hedge fund portfolios, using direct hedge fund investments, UCITS or managed accounts, depending on our client requirements for liquidity and transparency. In all cases, we try to establish reporting lines at different levels with our institutional clients in order to educate management and facilitate the acceptance of the hedge fund allocation.

Pierre Lenders

We work a lot with institutional investors who have already formed an opinion on how they want to take advantage of certain options through talented managers. The institutional investors understand the opportunities, but they also analyze their balance sheets where they often find sub-optimalities that can be corrected if you plug-in the right products, which may include hedge funds, ETFs and/or simple hedges.

We at HDF aim to do a lot more of that consulting work, looking at the balance sheet and constraints with our client and figuring out what is the best combination of products that would suit their requirements in terms of performance on a stand-alone but also holistic basis.

Matthias Knab **From the fund managers' perspective, how do you see your business evolving? How do you see the development of France as a financial market place?**

Pierre Lenders We mentioned that generally the institutional investor base is slow moving, but still has outspoken needs for attractive risk-adjusted returns to be added to the balance sheets. I agree with Philippe and others that the seeding business will be attractive because you do not only get the performance of the managers but also benefit from this growth.

More generally, for many reasons, the concept of outsourced investment can only grow. The world is always more complex, and investment opportunities can only be efficiently tackled if the right expertise are lined up, multiple markets, multiple jurisdictions, multiple languages, cultures, etc. - planet finance is no longer a simple beta play on the U.S. consumer. Quite to the contrary, many more idiosyncratic albeit powerful drivers have emerged.

Furthermore, the opportunities that require so many different and specific expertise are not necessarily that relevant for extended periods of time. For those two reasons, outsourcing is easier and more efficient than scrambling to build in-house and then dismantling. The case in favor of outsourcing has never been so clear, even more so since the pitfalls and complacency which started building up pre-2008 has been exposed and vastly removed at least for now.

What is still lacking though, as we described, is a regulatory framework that recognizes some merit to this investment methodology instead of penalizing investors for it. Transparency should be viewed as a mechanism that insures self-discipline within the system, not as a technique to negate the role of the portfolio management skills of the outsourced managers. That is why we are working hard with some of our clients on helping them building their internal models for Solvency II. That is, we think, the best way for us to try to help working towards keeping France in a good position on the investment map, and French savings on the right products, not just on the right instruments but also in the right hands.

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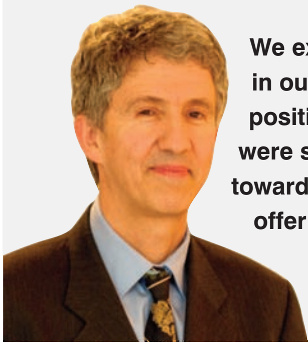
Pierre Lenders

Michel Boiron

We experience good demand right now for commodity-based products. But this demand is shifting in our opinion. Until 2008, the commodities beta strategies were making good returns because of positive raw yields but after 2008, when the raw yields became strongly negative, the beta strategies were struggling to make profits. This is the reason why it seems to us that demand is moving towards pure alpha generating commodity-based products. And within the CTA space, not many firms offer such programs. Many of the major CTAs have a strong focus on financial markets for liquidity reasons. With a 50% allocation on commodities, we feel that our program is well positioned to cater to this growing demand.



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Michel Boiron

Also, we believe that the current debt crisis and the high level of uncertainties should entice investors to increase their investments in liquid, transparent and non-correlated strategies like ours.

Nathanael Benzaken

At Lyxor, our first move will be to launch our UCITS hedge fund platform. We have been hesitant in launching UCITS hedge funds. We were a little bit hesitant at the beginning due to the natural inclination to distribute such products to quasi-retail investors. Such a distribution channel usually comes with a large AuM, and size usually comes with lower performance in the hedge fund world. And on top of that, the overall investment constraints imposed by the UCITS framework can potentially limit the strategy replication and mechanically negatively impact performance.

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This being said, what we decided to do is to address those issues by being very selective when it came to select managers and strategy to on-board on our new UCITS hedge fund platform. We are indeed about to launch a number of UCITS hedge fund products with the same investment approach as a traditional hedge fund investor would have. We will launch these UCITS single hedge funds over the next coming months, with the first one to be launched in August.

As a second evolution, I already referred to the developing trend where some institutions are redeeming from funds of funds and starting to hire analysts and portfolio constructors internally to start allocating directly, often by setting up what is called a dedicated managed account platform ("DMAP"). They do not necessarily limit themselves to the managers we currently have on our platform, but often approach us with a proposal along the following lines: "We bring the managers, Lyxor rents us their infrastructure, their reporting and structuring and possibly their operational duediligence capabilities?"

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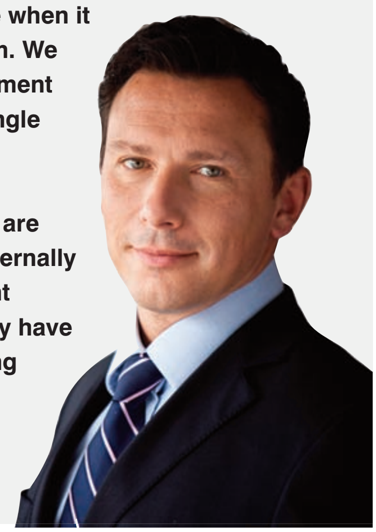

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On both sides of the Atlantic, regulators are putting pressures on managers to register and operate within regulated frameworks. The beauty of our DMAP offering is that it can be domiciled virtually anywhere, especially on-shore. We are currently working on a Dublin-based platform for a large institutional investor in Europe and we are working on a Delaware-based (U.S. onshore) platform solution for the benefit of U.S. institutional investors.

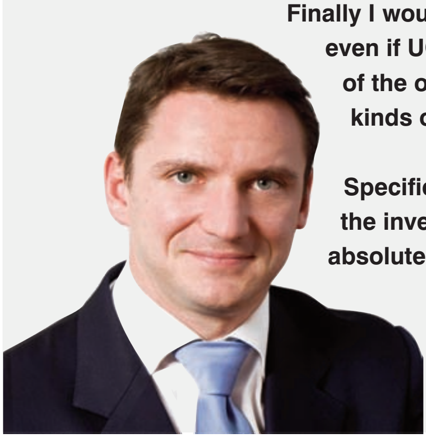
Matthias Knab **When an institution comes to you wanting to set up a dedicated managed account platform, what is the required minimum size?**

Nathanael Benzaken There are several applicable metrics, the main one being the average AuM per managed account, which should be ca. $75-100 million at cruise altitude to make the economics work and to have better chance to have the support of hedge fund managers.

David Lenfant We, at Laffitte Capital, are very excited with the potential of our current environment.

In terms of market opportunities, we deem that the environment is very supportive for our event driven strategies. Currently a lot of companies have a huge amount of cash in their balance sheets. Either they may return cash through dividends or share buybacks or, under stockholders pressure for value creation, they may consider external growth. The M&A market should experience an increase of its activity in the coming years. We do not expect a spectacular boom of deals volume due to the current challenging macro situation but rather a long-term trend. The M&A activity went back to normal in Asia and in the U.S and is spreading to Europe as well.

The global move towards onshore funds is actually very interesting. As many U.K. and U.S. based competitors start to manage the same kind of strategies through UCITS with comparable constraints, it will be easier to rank managers. Within the UCITS framework French managers will demonstrate their ability to compete with U.K. and U.S. based managers historically managing offshore funds.



Finally I would add a last comment about distribution, which I see as a challenge. Surprisingly even if UCITS are designed as retail products, retail investors account for a tiny percentage of the overall investors' breakdown. We still have to find a better way to promote these kinds of products to this category of investors.

Specifically in France, life insurance platforms drive a huge part of the retail flows. 80% of the investments are made through "Euro funds" mainly exposed to sovereign debt risk. If absolute performance UCITS funds could collect up to 5% of that money, I believe the benefits will be substantial for both the investors, as they need diversification, and our industry.

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Anne-Sophie d'Andlau

At CIAM, one of the growth avenues we see is through managed accounts, and at the moment we are in discussion with a number of platforms based in Europe and in other places. The reason for that is that while marketing the fund, we came across a number of investors in Europe who tell us they are now willing to invest in hedge funds, but only through managed account platforms.

A number of our investors, and family offices in particular, are now thinking about how to aggregate the risk of their investments, so as to understand in depth what type of risks they are facing. We believe that the whole industry will increase the use of managed account platforms, because they can offer what investors are looking for: transparency, liquidity, and risk management on an aggregated basis.

Nathanael Benzaken

We cannot agree more! This corresponds to the feedback we get from our clients on a global basis. Traditionally, modern reporting technology was designed to provide aggregated risk exposure information. We believe it should be designed to also help investors better allocate their hedge fund investments and ultimately optimize their portfolios.