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Opalesque Round Table Series '13

FRANCE

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Editor's Note

French Institutions show more interest in hedge funds

For the last five years, hedge fund performance has been below its historical average, and most institutions in France did not increase their allocation. This seems to be changing in 2013 when with the changed dynamics in the financial markets investors' expectations have moved from capital preservation to competitive performance, and are more willing to embrace higher volatility. In the context of a global portfolio with somewhat stretched valuations and shorter overall market cycles, investors have now many good reasons to evaluate the merits of alternative strategies.

More new ideas, trading and investment strategies have become available for investors. One reason for that is that a lot of people who were running strategies internally at banks are now leaving to either set up or join hedge funds – two firms represented at the Roundtable are such spin-outs.

AIFM and UCITS V: Inspired by French regulations

People often think that the AIFM directive is only targeted at hedge funds, which is far from true, particularly in France. About two thirds of the 600 French asset management companies will eventually be AIFM authorized, and the majority of funds domiciled in France is not UCITS and will fall under the category of AIF. Against this background, it is worth noting that a number of provisions in AIFMD are directly inspired from the French regulation framework. This is one of the reasons why French asset management companies tend to have it easier to adjust to than some of their European competitors. For example, the rules on depository both in AIFMD and tomorrow in UCITS V are very much inspired by French rules, as these have been widely acknowledged as protective and efficient. There are other examples, such as valuation or the prevention of conflicts of interests.

The Opalesque 2013 France Roundtable, sponsored by Lyxor and Eurex, took place on June 6th 2013 in Paris with:

1. Edouard Viellefond, Managing Director, Autorité des marchés financiers (AMF)
2. Frederic Lebel, Co-CEO and CIO, OFI MGA
4. Jean-François Comte, Founding Partner, Lutetia Capital
5. Xavier Lattaignant, Head of Alternative Multi-Management, SCOR Global Investments
6. Jad Comair, Founder and CIO, Melanion Capital
7. Nathanaël Benzaken, Managing Director, Lyxor
8. Paul Beck, Executive Director, Eurex

The group also discussed:

- **Why Lyxor has started to promote and back emerging managers**
- **Regulatory Update:**
  - **Deconstruct and Blending: How AIFM offers investors a more efficient way to use hedge funds in global portfolios**
  - **Will AIFM become a global standard, offering global distribution benefits to compliant managers, just like UCITS? Can AIFM be exported beyond the EU?**
  - **AIFMD (and later UCITS V) should not distract asset managers from EMIR and MiFID 2**
  - **How will UCITS VI deal with complexity and derivatives?**
- **Benefits of funds of Managed Accounts**
- **Secular trend: European credit intermediation shifts from banks to markets**
- **Dividend Futures: Launched by Eurex in 2008, will the market evolve so that each listed firm will have dividend futures, creating a huge new marketplace?**
- **The renaissance of the fund of funds / multi manager industry**
- **Paris beats London and Geneva? Why independent asset managers can thrive in France**

Enjoy the read!

Matthias Knab
knab@opalesque.com

Cover Photo: Eiffel Tower in Paris, France

Participant Profiles

(LEFT TO RIGHT)

Edouard Vieillefond, Jad Comair, Paul Beck, Frederic Lebel, Jean-François Comte, Nathanaël Benzaken, Xavier Lattaignant, Matthias Knab

Introduction

Edouard Vieillefond
AMF

My name is Edouard Vieillefond. I am Managing Director at the AMF in charge of the Regulatory Policy and International Affairs division since 200 . My division covers asset management, financial markets regulation, infrastructure and issuers' regulation. We have a strong role in international discussions with supranational organizations like ESMA and IOSCO. Previous to joining the AMF, I spent six years in the State Shareholding Agency at the Treasury and Economic Policy Directorate of the Ministry of the Economy, Finance and Industry, where I served as Head of the rail, sea and automotive transport unit and then as Investment Director at the energy division.

Jad Comair
Melanion Capital

My name is Jad Comair. I am the Founder and CIO of Melanion Capital, an independent investment management firm established in 2012 to take advantage of investment opportunities in a new and rapidly growing market – dividend futures. These futures allow you to take positions on companies' dividends. . ou can go long or short future dividend payments. That means you can express your views on a company's financial health through their dividends. These futures are listed on the main derivatives exchanges in Europe and in Asia.

The first dividend future was created by Eurex in 2008, and since then many other futures have been listed, and many players have come to this market. At the moment there are dividend futures on the main European blue chips as well as on the leading indices.

We strongly believe that dividend futures are developing as an asset class of their own. The idea behind creating Melanion Capital was to create the first investment company specialized in this asset class, and to grow along with it and follow the expansion of the market.

Prior to launching Melanion Capital, I worked for 10 years in Société Générale's equity derivatives trading department, I also set up their dividend trading desk in 2008.

Paul Beck
for Eurex and Deutsche BMrse Group

My name is Paul Beck. I am responsible for Eurex and Deutsche BMrse Group in Paris. Eurex is one of the world's leading derivatives exchanges offering a broad range of international benchmark products such as the EuroStoxx50, DAX futures or the European government bond futures like the Bund, the OAT or the BTP. There are also a range of more recent derivatives products such as the VSTOXX or the dividends mentioned by Jad.

One of the main focusses this year has been driven by the EMIR regulation, resulting in offering a new platform for clearing of OTC interest rate swaps and also equity swaps via a central counterpart. The OTC Clearing platform was launched at the end of last year.

Jean-François Comte
Lutetia Capital

I am Jean-François Comte, a Founding Partner of Lutetia Capital, an independent asset manager based in Paris since 200 .

Prior to joining Lutetia I was an investment banker at Lazard in New . ork for about 10 years. Lutetia Capital specializes in absolute return strategies, and specifically on event driven and arbitrage strategies, including volatility, which has been one of the latest developments in our strategies.

We were one of the first firms to launch an event driven fund in the UCITS format back in 200 . We only run onshore funds and products. In addition to the UCITS fund, we have launched investable indices in partnership with Société Générale, as we think the index format is also one that has a lot of merits. We launched a first index back in 2011, the SGI Merger Arbitrage Index, to offer investors an exposure to merger arbitrage through a simple ETN, with daily liquidity.

Since the beginning of the year we also opened our proprietary volatility strategy to investors with the SGI Lutetia Vol Advantage Index, which is one of the best performing strategies in this growing asset class.

Xavier Lattaignant
SCOR Global Investments

I am Xavier Lattaignant, Head of Alternative Multi-Management at SCOR Global Investments "SGI" . SGI is the asset management company of the SCOR Group, the fifth largest reinsurer in the world.

Created in 2008 and regulated by the AMF since May 200 , SGI manages the investment portfolio of the SCOR Group's entities with a team of around 50 experts. In order to provide external clients with access to innovative investment solutions in markets with high barriers to entry, SCOR Global Investments has decided to open some of its funds, initially exclusive to SCOR, to professional investors. Today SGI manages around 12bn.

I joined in 2011 with a colleague from BNP Paribas to set up the alternative investments' desk which operates across hedge fund investments and commodities. In the hedge funds space we launched a fund that invests through different managed account platforms. It is an efficient solution for SCOR to enter the asset class and obtain exposure to hedge funds securely.

We also work in collaboration with the other front office teams of SGI, specialized by asset class. For example, as SCOR was looking for more convexity in the equity portfolio, we started to invest in some long short equity funds to obtain downside protection in bear markets while still participating in the upside of the markets.

Nathanaël Benzaken
Lyxor

I am Nathanaël Benzaken. I am Managing Director at Lyxor where I am Deputy Head of the Alternative Investments Division and Head of Managed Account Development. Lyxor manages ca. 100bn across four business lines, namely ETFs and Indexing, Structured Investments, Multi-Asset Investments and Alternative Investments. Within the latter, we have pioneered the managed account business for hedge funds. We started in 1 8 with the vision to offer access to hedge funds in a secure way.

In today's environment, we have three points of attention: regulation, performance and technology.

The AIFM Directive and the UCITS regulation are very important developments for the U.S., Europe and for the hedge fund industry as a whole. There is a scenario where they act as catalyst to help re-build the industry. Although total assets under management in hedge funds suggest that they are back at, if not beyond, historical highs, one must bear in mind it is essentially the result of performance contributions. Flow-wise, we have not seen much new cumulative net inflows in the industry since the massive redemption flows in the aftermath of 2008. We take the view that this new set of regulation can help restore confidence and hopefully help bring European investors back into hedge funds.

Second, performance. This industry has been suffering from mediocre performance since the crisis started. Unless we can collectively demonstrate the ability to rebuild competitive performance, both in relative and absolute terms, the industry will not grow sustainably.

Our third focus is to make access to hedge funds even more competitive by improving technology, systems and fees. The discussion in the industry lately it has been about enhanced transparency, and more recently about more attractive manager fees. We discussed this at length in last year's Opalesque France Roundtable. This year we focused on how to make our managed account platform more transparent and the platform fee even more attractive, and thus create more value for our investors.

Frederic Lebel
OFI MGA

I am Frederic Lebel, co-CEO and CIO at OFI MGA. OFI MGA is the dedicated alternative multi-manager structure owned by the OFI Group 80% and Man Group 20% since January of this year.

We are a team of five dedicated investment professionals and run about EUR 00m on behalf of mostly French institutions. Three quarters of that amount is managed through dedicated mandates and a quarter through funds of hedge funds.

I am based in Geneva yet spend a good part of my time with the team, which is based in Paris. I spent most of my career at Lombard Odier before joining the OFI Group in January 200 .

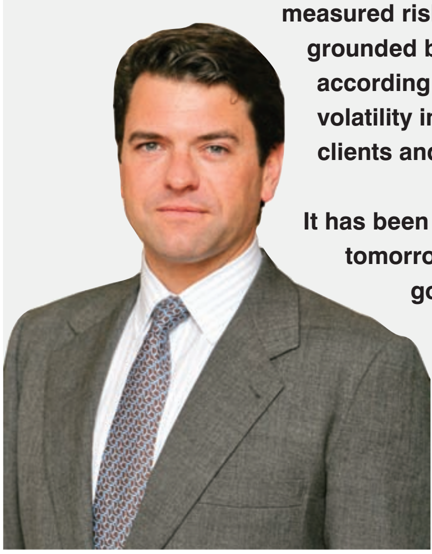
For over 15 years I have been investing in hedge funds. While the first 10 ten years were great in terms of performance 1 7 to 2007 , the last five years have been more difficult. We reflected a lot about how to grow our business in the coming five years and, in fact, we have now been observing quite positive developments in our sector.

Matthias Knab Frederic, I am happy to hear more about the positive developments you are seeing in the funds of hedge funds sector. In addition, what opportunities and trends you see for the hedge fund and alternative investment industry in general?

Frederic Lebel Let me first echo what Nathanael just said, performance will continue to be key. 2008 was a huge shock not only to the system but also to how managers had built their firms, how they positioned themselves and also regarding what they thought they could deliver to their investors.

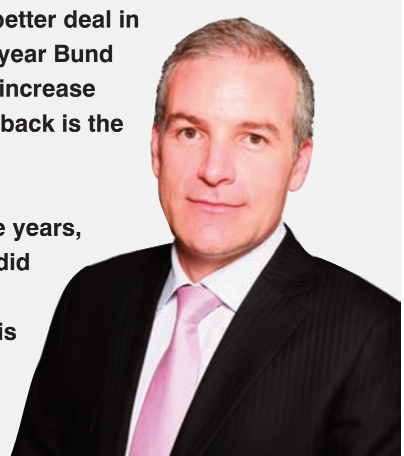
The financial crisis of 2008 led to massive counter-performance. A lot of managers and investors had to deal with scenarios which were thought of as hardly possible at all. As a result, many funds had to implement extreme measures such as gates and suspensions, which even impacted the very viability of their businesses. Unsurprisingly, that shock led to a prolonged period of doubt and self-questioning. Of course, with the benefit of hindsight we should have considered the probability of such a truly negative outcome - we didn't; but we should have.

Frederic Lebel: It took years for people to rebuild themselves and regain a proper grounding after the financial crisis of 2008. A lot of time and effort was required to restore the confidence required to function properly and take measured risks again, to regain the composure to live with a portfolio of convictions based on grounded beliefs. Now we observe that many of our managers use and deploy capital according to their convictions while they were rather focused on preserving it with minimal volatility in the years after the crisis. This more deliberate pace is required to actually serve clients and deliver on their expectations.



It has been said many times that no crisis should go to waste. We believe that the leaders of tomorrow will have learnt tremendously from the past five years, they will be at least as good as their peers from the 80s and 90s. But, at the same time, they will certainly be more transparent with their investors, they will also be more open regarding regulation, which in spite of being a source of cost will be considered as a necessary condition to run alternative investments. We expect them to proactively seek best practice regarding governance matters, while maintaining a constant and acute focus on delivering performance. These are our expectations for the future of investing in alternative investments.

Xavier Lattaignant: Most institutional investors have high exposure to fixed-income and low exposure to equities and other investments. Given the current environment of low rates and tight credit spreads, alternative investments are a good proposition to diversify and enhanced portfolio returns. It is a better deal in terms of risk-reward than the erratic behaviour of equities or than being exposed to 10 year Bund today where yields stand around 1.5%. The carry can only compensate for a small rate increase and over one year the return turns negative if rates only go up by 30bps. The only drawback is the cost of capital applied to hedge funds in Solvency II rules.



I see a real interest to invest in hedge funds in the current environment. For the last five years, hedge fund performance has been quite disappointing and most institutions in France did not increase their allocation. However, as systematic risk has been fading over the last nine months, hedge fund returns have been more in line with the historical average. This environment should continue to provide opportunities for the best hedge funds.

A first indicator is the equity correlation. As correlation was very strong among

equities, it was very difficult for long/short equity funds to generate alpha as all stocks were moving in the same direction. Since September 2012, that correlation has decreased and we have started to see long/short equity generating alpha again. Merger arbitrage activity is also picking up as corporates' managers have more visibility on the macro outlook today than they did one year ago. Going forward, we could see again some good numbers in the hedge fund industry.

I believe allocators are going to recognise this ability to perform over time - as they have historically - and will decide to increase their exposure. Hedge funds need on their side to continue their effort on transparency (AIFMD will help on that aspect) and on the level of fees. For example, a hurdle rate should be the norm as I do not see any reason why managers should collect incentive fees on the risk free rate. Fund managers' and investors' interest should be better aligned.

Once you have decided to invest into hedge funds, you need to decide on how. People have memory of the hedge fund debacle of 2008. I consider what investors did not like about hedge funds at that time was not so much performance (which was most of the time far better than equity or credit indices), but the way some hedge funds behaved by creating side pockets, gating funds, or suspending redemptions.

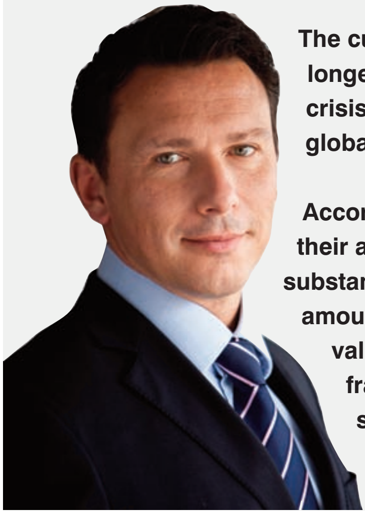
On our side, we look for ways to obtain the performance engine of hedge funds in a secure and transparent structure. For this purpose, managed accounts are a very compelling alternative to direct offshore investment. It is an efficient way to get transparency, control over assets by a third party and improved liquidity in some cases.

This trend is visible in the increasing number of platforms and the asset growth of these hedge platforms. As institutional investors consider alternative investments, they will do it through managed accounts.

Nathanaël Benzaken: The mood of investors and managers has certainly changed. Looking five years back, we were in a very uncertain world, whereas it seems that today is slightly more "certain". At the very least, the major uncertainties are or are about to be behind us, the AIFM Directive being a major one (it is to become effective on July 22, 2013). The fewer uncertainties, the better appetite for risk taking.

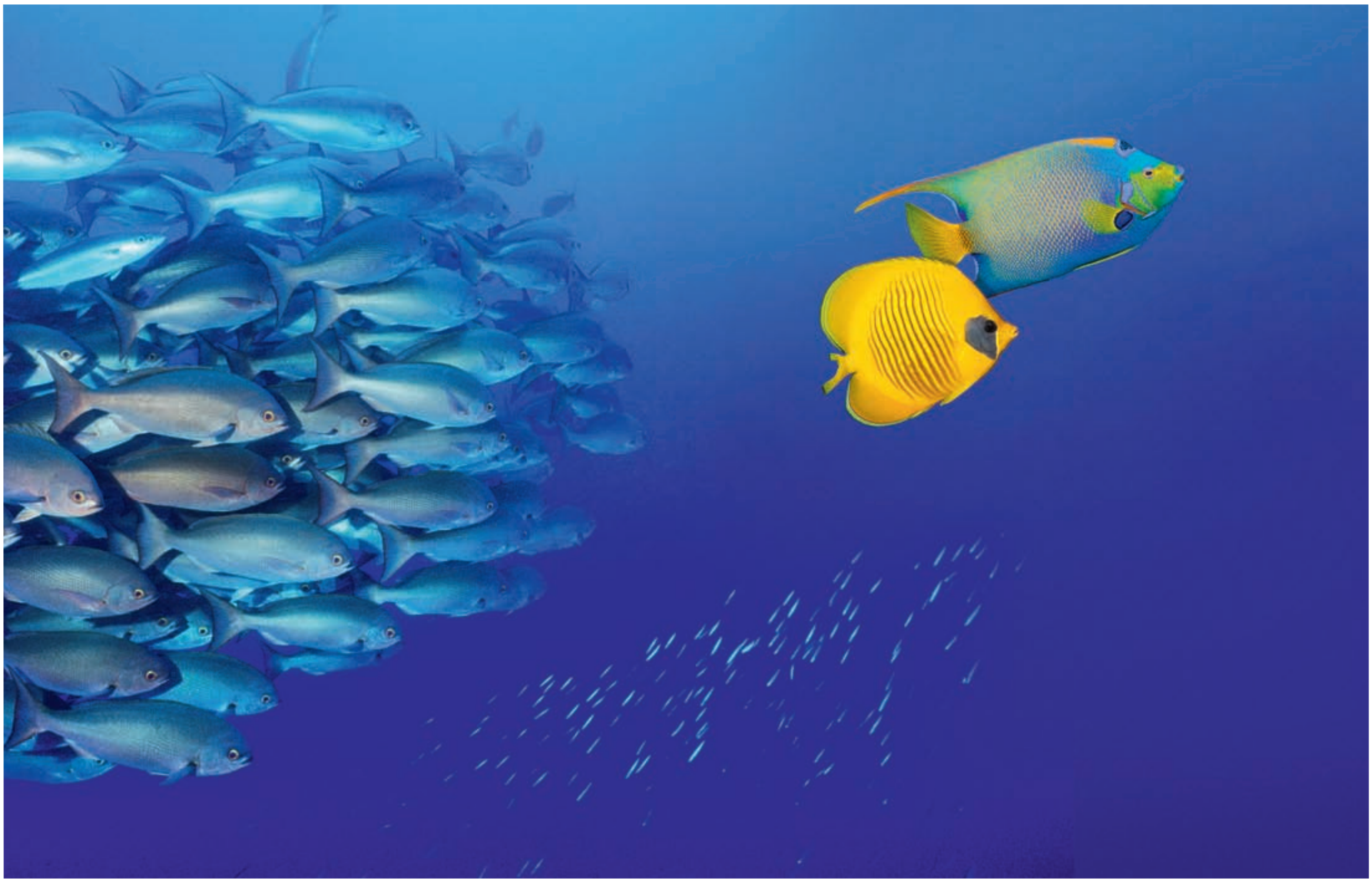
This perception of a constructive market environment has been corroborated by discussions with managers. The pendulum has definitely shifted from a "fear" position to get closer to a "greed" position. Interestingly enough, when chatting with managers it seems that investors' expectations have moved from capital preservation to competitive performance, assorted with higher volatility expectations.

Combine both observations and we have reasons to think we could expect to be at the dawn of the new growth period for the hedge fund industry.



The current market valuations should help too. Equity rallied nicely, interest rates (shorter and longer term) and credit spreads are rather expensive and volatility has collapsed to almost pre-crisis levels. Very good reasons to evaluate the merits of alternative strategies in a context of a global portfolio with somewhat stretched valuations.

According to recent surveys, many institutional investors are actually considering to increase their allocation to alternatives. If it is proven right, the potential for new asset flows is substantial. Furthermore, an increase in allocation usually comes with increased nominal amounts with each manager. This is where the managed account solution delivers most of its value. Although the AIFM Directive provides a greater level of protection, key risks such as fraud, style drift, reputation, lack of transparency etc. remain. The managed account solution does address them. The bigger the nominal amount per manager, the more relevant this solution.



Jad Comair: One trend that we see happening from a manager's perspective is that in the future years there will be more and more new ideas, new trading and investment strategies available for investors. One reason for that is that a lot of people who were running strategies internally at banks are now leaving to either set up or join hedge funds.

We are the perfect example of that, because we are a team of traders who were working at Société Générale and left to start Melanion Capital. We were running our strategy with the bank since 2008, and the combination of internal restrictions on trading from regulators and the dividend futures market becoming more and more liquid and popular led us to decide the opportunity was good enough to leave and start on our own.

We are seeing the same at other banks around the world. That is a clear trend that brings more strategies and more innovation via all these people who leave banks to join the hedge fund industry.

Jean-François Comte: Another development we are seeing is that we are heading for potentially shorter market cycles, which may also play in favor of absolute return strategies, whether you call them hedge funds or with any other name.

We have been talking about globalization for years, but we see that this trend has been accelerating clearly in the last few years, particularly since 2008. This results in the increasing global relevance of local "macro" events. If we look at the last peaks of volatility in the market globally, they came from many different places: one day it's Fukushima; the next day it's the Italian crisis, Cyprus, or the fiscal cliff in the U.S.; now it's Japan again and the end of the stimulus program in the U.S.

This is the reality of global markets today, and it tends to be amplified by the changing nature of financial instruments. The debate is ongoing since 2008 around the impact and systemic risks associated with high frequency trading and leverage in the markets through derivatives and structuration. All this certainly contributes to amplify market volatility.

That is why we believe that in such an environment investors will increasingly turn to innovative strategies and efficient absolute return products in formats that guarantee liquidity and transparency.

We observe that in the professional investment community, most people realize that and are increasingly looking for efficient products that provide a risk-mitigation or a de-correlation from the rest of their portfolio. I see this as a challenge for all of us to pass on that message to the retail side of the market, using appropriate formats with the support of our regulators.

Edouard Vieillefond: Actually, we are heading towards that direction. At the moment, we are very busy with the concrete implementation of the AIFM directive. There were of course extensive negotiations at Level 1. Discussions are now going on with the Level 2, the draft RTS and the guidelines under preparation at ESMA level.

But let me focus on the implementation in France, for which we have been working for almost a year, and for which we had a number of discussions and exchanges of views with market participants. Overall, we have tried to implement the directive in an efficient manner.

We have been helping a lot technically to redraft the Code monétaire et financier alongside the French Treasury, as we

did for UCITS IV. And we have had to do it with the deadline in mind, because the ordinance implementing the directive into French law will have to be published no later than July 31st.

People often think that the AIFM directive is only targeted at hedge funds, which is far from true, particularly in France. About two thirds of our 600 French asset management companies will eventually be AIFM authorized and the majority of funds domiciled in France are not UCITS and will fall under the category of AIF, which is something people don't realize. These actors are already subject to national regulation and supervision, regardless of the AIFMD.

Also, one should keep in mind that this directive was originally one of the responses of Europe to the G20 following the crisis. From the outset, AIFMD was a directive aimed primarily at addressing systemic risks (through enhanced reporting, regulators' power to set a limit to funds' leverage). Fostering competition and opening the European market (through the passport for management and marketing activities) only came second in the minds of legislators.

Against this background, it is worth noting that a number of provisions in AIFMD are directly inspired from the French regulation framework. Actually this is one of the reasons why generally speaking French asset management companies will have it easier to adjust to it than some of their European competitors, because already comply with many standards it contains.

The rules on depository provide a good example: both in AIFMD, and tomorrow in UCITS V, they are very much inspired by French rules, as these have been widely acknowledged as protective and efficient. There are other examples, such as valuation or the prevention of conflicts of interests.

So the bottom line is that managers will have to adapt to certain new requirements (reporting, liquidity management etc.) which are a consequence of the crisis, but overall it is not for French asset managers that the gap to bridge is the widest.

Then my second point is that – similar to what we did when implementing UCITS IV back in 2011 – we have tried to take advantage of the implementation of AIFMD to try and simplify a number of things and make the environment more business-friendly and simpler. As you probably know, we have tried to simplify fund denominations in the Code monétaire et financier, merge together or rebrand certain exiting vehicles, and better delineate between retail and non-retail vehicles. We have also simplified the subscription thresholds for retail and professional investors across our existing AIF.

My last point is that the implementation of AIFMD (and later UCITS V) should not distract asset managers from other pieces of European legislation like EMIR and MiFID 2 which will have a huge impact on asset management as well. Questions of consistent articulation between these texts may raise some important issues, because, to be frank, they seem to have been thought "in silos" to some extent, without cross-examining their consistency with one another. For instance, EMIR concentrates counterparty risks in OTC derivative transactions at the level of central clearing houses, whereas UCITS sets rules for spreading that counterparty risk. The status of securitization vehicles across AIMFD and EMIR is another interesting issue.

Edouard Vieillefond So, in the end, I think there is still a lot of progress to be made, both at international and European levels, to ensure that those regulations are consistent with each other and that they create an overall environment that is favorable to the asset management industry. We must also remind those in charge of addressing the shadow banking issues, that entities from the asset management world which are part of shadow banking are already heavily regulated in Europe, something that some regulators, notably banking regulators, don't realize enough.

Paul Beck Unfortunately, we haven't really come back to normal market activity since the crisis. When you look at overall volumes, for example at exchanges, we are still at quite a decrease in comparison to the peak in 2008, both on the cash side and on the derivative side.

Paul Beck: I think trading volumes are slowly starting to normalize, but as Jad mentioned before, some of the banks have reduced their prop trading activity or completely stopped it. Some of the bank prop traders have left to set up their own funds, or moved to hedge funds, but a lot of them have stopped trading. So the overall activity has gone down.

There is also still a lot of central bank intervention through quantitative easing all over the world and interest rates are kept at a very low level. So people are trying to chase some yield, and I think it is important to think outside of the box and come up with new strategies.

You also see that trades can be very quickly crowded. It has happened now, for example with Japan, where everyone was jumping on the train and the last ones that jumped on, they got burned a bit.

But I think where you can probably find some values are those people that find a niche for themselves. It is important to differentiate yourself as a fund, focusing on other strategies and other products, like dividends, sectors, volatility where you have better returns and less correlation. There are certainly opportunities if you can differentiate yourself.

Edouard Vieillefond: I would like to pick up on the debate about what the banks will or will not do anymore in the future. In Continental Europe, 80% of the economy is funded through banks, whereas the proportion is roughly only 20% in the U.S. Of course we will certainly not end up with the same kind of figure as in the U.S. Still, we should expect the weight of banks in credit intermediation to decrease significantly. It's very clear to me that the move will be very important in Europe. It is only recently that this trend has become visible in France. A growing proportion of the economy is to be financed through the markets, not any longer through the balance sheets of credit institutions. Expect this to be a very strong, lasting, long-term tendency.

We are already observing this trend with our largest companies: many of them are increasingly financing themselves through bond issues instead of bank debt. It's very easy to see that happen in France, because a lot of the bond issues happen in Paris and as a regulator pre-vetting the prospectuses, we are in a good position to see the movements.

Of course, it is less easy to do for smaller companies, but generally speaking, as you have mentioned, the amount of money available that could be channeled towards the financing needs of corporates through the market channel is huge, which creates significant opportunities for investment funds in the future. Securitization vehicles, funds of loans, crowdfunding have attracted much interest (including politicians' awareness), but fund management and hedge funds in particular are also in the scope.

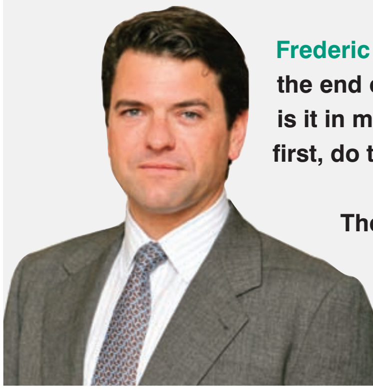
On the simplicity and suitability of investment products, I think that investors, including professional ones, are ready to take risk if they are in a position to properly assess the extent of that risk. The issue here is more the complexity of the product. Of course it's a big issue for retail investors: our line on that is that we don't condemn risk from a macro and micro economic point of view. Indeed, we have nothing against retail investors taking risk buying equity for instance.

What we don't like is complexity which prevents people from understanding the mechanics of the investment product they invest in. This could be a huge debate in UCITS VI in the future, because there are two schools of thought. The first one considers that a product is complex whenever it relies on the use of derivatives. That is not our school of thought. Ours is that a product is complex whenever people cannot understand it (whether or not it relies on the use of derivatives is not a discriminating factor *per se*).

So, overall, everything that can be done towards more transparency, more simplicity, including in the fee structure, will help to attract investors towards new products.

Going back to the notion of liquidity, there is currently a debate on a forthcoming initiative of the Commission regarding long-term investment funds. We think it does not fit in properly within the UCITS framework, because such a type of fund will provide no liquidity to its retail investors, whereas liquidity is one of the cornerstones of the UCITS brand.

Frederic Lebel When it comes to either retail or institutional investors, creating the right products while respecting the relevant regulations is one thing, providing unbiased advice as well as educating our clients is another. Both should be delivered by the asset managers, who run money on behalf of their clients in this post-crisis environment. I have been involved for many years with the CFA Institute, where ethics and education are at the core of what we do. We find ourselves quite surprised how limited the efforts were to educate investors, certainly at the private individual level but also at the professional investor's level. It seems that most people agree that one should make the future a better place but only few take steps in order to provide a general grounding so that such better future can actually come about.



Frederic Lebel: One important area of education concerns investor rights. For most investors, at the end of the day the important questions are: "do I understand what I am being presented with, is it in my best interests, am I working with the right partners, do they get to think of my interest first, do they care about helping make the right choices for me?"

These things will be fundamental to have that better future come true. With more and better education, clients will also be better equipped at discerning who the right partners would be and thus able to select them. That will ultimately benefit the whole industry, which should do any effort to help restore clients' trust.

Nathanaël Benzaken: I can't agree more with what Frederic just said. The topic of investor rights is definitely key. We have been engaged in the managed account space for the last 15 years. Within that period we saw the transformation of the managers' mentality from very opaque, very protective and secretive about what they do to today fully transparent and fully amenable to managed accounts as the new normal for "fund of one" solution and new routes to diversify their asset base. Another way to put it, the manager community finally realizes that investors' rights must lead the way to do business.

We understand the concern about potential strategy reverse engineering (which is very remote to be honest). But we also have to explain the expected investor benefits of offering enhanced transparency and detailed risk exposures.

As part of our human nature, when we don't know or don't understand, we stay away. Naturally the opposite works too: When we know and understand, usually we stay or at least stay longer. The more value we create collectively for the investors, the greater the chances to get their confidence.

Jean-François Comte: I agree with Nathanael, investors will stay away from what they don't understand, and rightfully so. That means when asset managers are active on strategies like ours – event-driven, merger arbitrage, or volatility arbitrage for example, which are not very well known in the public – one of your key issues is to deliver an audible commercial message, while preserving the accuracy of the strategy's description.

And that's why Mr. Vieillefond was right to point out that a proper categorization of the strategies is key. The retail market needs to understand that the term "hedge fund" doesn't mean anything. Within the "absolute return" category, you can run a strategy with 30% volatility, or with 3% volatility… Not really the same risk profile. In the absence of a better classification system, it is the responsibility of the managers to make sure that they convey the right message to the public, and to provide easy-to-access, understandable information.

So we have to ask ourselves do we have the right tools for them? Do we have the right platforms in each country that are accessible to the public, whether professional investors or individual investors, that gives them access to accurate information so that they can make the right comparisons within a certain category of products, so that they are able to get the best in class.

Event-driven is a great example for this discussion, because it has been over the last decade one of the most popular strategies of prop desks of all investment banks, in fact one of the most efficient strategies in the equity market for the last 20+ years, outperforming major equity indices with a much lower volatility. However, it is an asset class that is completely underrepresented at the decision level for the public, because people just don't understand it and they have no appropriate basis for comparison. That is the main communication issue firms like ours have: we constantly try to explain what we do with simpler words but with an accurate description, so people understand the risk/reward of the strategy and its benefits.

Jad Comair: We have exactly the same story. In our case we are trading dividend futures, which is a relatively new product. But it is also a very simple product; it's even simpler than trading equities. Let me give you an example. Let's say you have an opinion on a company's dividend, so you buy a dividend future on a company that today may be worth for example 90 cents, and the company then announces 1 Euro. You make 10 cents. That means you are just playing on the dividend part of the stock. If you would however buy the company's share, you will basically buy the whole earnings stream of the company from now until the end of time, which of course is much more difficult to apprehend.

That said, although it is a simple product, we have to spend a lot of time explaining to people how it works, how it behaves and what the risks are. Paul from Eurex helps us to educate investors on this new asset class, and education is basically one of our fundamental activities when we engage with our investors.

Paul Beck: And if I may take on from that, dividends are also a good example in terms of transparency. The dividend swap market 10 years ago consisted of a few large banks hedging their dividend risk from structured products and some hedge funds taking on the exposure.

Once Eurex launched a listed futures product with annual maturities in 2008, replicating the OTC market but with the benefit of a central counterparty, the market developed from a few players to an environment with a lot of new players coming into the market. In the first 18-24 months, there was still a lot of volatility, especially when someone was exiting the market hedging some dividend risk from structured products. However, in the meantime, with a more balanced mix of market participants between banks, hedge funds and traditional asset managers, the dividend futures market has matured a lot more.

Paul Beck The dividend market is still in its developing phase and it has a lot more potential, evolving into an own asset class. Dividend futures are a good example of taking an existing market in the OTC space and developing it into a larger, more interesting market and offering new opportunities for funds like Melanion.

Matthias Knab Jean-François said before that simple strategies that are well-known to investment professionals in the alternative space still need to be explained to the broader public. That was historically also a rationale for the existence of a multi-manager or for a fund of funds saying "we do this for you, we understand it, we select strategies and build portfolios that are intelligently weighted from a risk-reward perspective". I want to give Frederic and Xavier again the opportunity to share your reflections where the multi manager and fund of funds industry is heading, what are some of the important trends and developments in your model?

Frederic Lebel: When you go back to your investors and tell them that hedge funds can actually be helpful to achieve their investment objectives, when you tell them that there is fragility in their portfolio, often composed of a very large allocation to fixed-income, you will find that they do have a very strong memory of hedge funds, and not necessarily a good one. For us this means we have to credibly explain why this time around hedge fund investments will be more effective and more secure for them. We have to report to them how in fact the industry has stepped up to avoid the kind of disappointments that happened during the past crisis.

So again, the number one factor that has changed is transparency. The "what do you ultimately own?" question can now be answered quite specifically and in detail. We are also able to aggregate positions and provide a good overview of risk and explain exposures and finally also where you can get performance.

It is indeed not only about risk, it is also about performance. When you get transparency, you get to the point where exposures reveal the orientation of the aggregate portfolio. It is not only which currency, which sectors or which credit bucket one might be exposed to, it is about which one specifically, in which amount and which convexity and which optionality. That means that you not only can tell a client what the downside might be if things happen in different scenarios, but you can also make an interesting projection of what you expect this portfolio to deliver and which scenarios will help the portfolio. We found that to be a big difference.

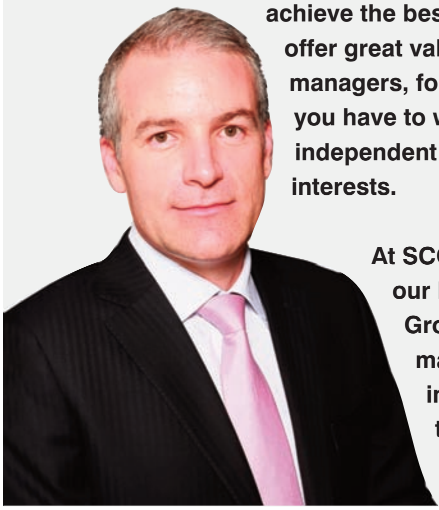
For us, the transparency we talk about is not a transparency to see, but a transparency to understand. That also creates a completely different relationship with the client from being "I am in the know, trust me!" to "what you see is what you will get". Most importantly, it creates proximity with the investment strategy. That changes completely the kind of relationship you get to develop with your clients.

Xavier Lattaignant: In my opinion, two different models were reinforced after the 2008 crisis and continue to gain traction today.

The first is the dedicated or bespoke fund of funds that you manage for one investor. In that case you do not suffer from liquidity mismatch which was one of the big issues of fund of funds in 2008. In such a set up the client can at the end be very comfortable because has full ownership of the portfolio. You can also increase transparency for the final investor and set up customised products depending on investor needs. In my previous position, we anticipated this trend and built an infrastructure to manage dedicated mandates for institutions in early 2008, which proved successful during the crisis.

The second is the managed account. If you set up a fund of managed accounts, you are able to provide liquidity to your investors that you received at the underlying level. You get full transparency of your exposure, your risks and there is no liquidity mismatch.

At the beginning of the year, we launched a fund that invests only through managed accounts platforms. We evaluate these platforms internally to validate that they fulfil our selection criteria (legal structure, operational risk etc.) and are partnering with them in order to have a large selection of funds, reduce costs and fees and ultimately be able to achieve the best possible returns. Having worked with different platforms, I consider most of them offer great value, but by combining them, you get a powerful product. Some hedge funds managers, for example, are willing to open a managed account but with only one platform, so you have to work with this platform in order to get access to that manager. We are also totally independent from these platforms to make our selection and do not have any conflict of interests.



At SCOR Global Investments, we decided to set up a Luxembourg Sicav managed from our Paris office to implement this second solution. It is a very good way for SCOR Group to get hedge fund exposure through a standard structure, well recognised by market participants. We think this product adapted to SCOR's needs will also be of interest to other investors in the current environment and we plan to open our fund to external clients, which in our case will be institutions and family offices. SCOR is directly invested in the fund for $70m.

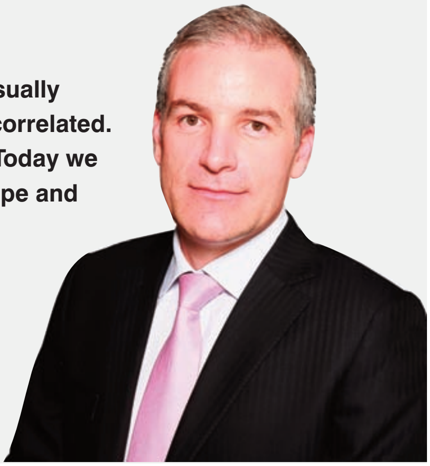
Matthias Knab What are your return expectations now when allocating to hedge fund strategies? Secondly, from an allocator perspective, what are some opportunities you are looking at?

Xavier Lattaignant: Return expectations have decreased compared to the 90's and I think a reasonable number will stand between 6 and 8% above Libor.

In terms of opportunities, as banks are reducing their proprietary activity, managers are increasingly setting up hedge funds. It is very interesting as new funds may trade niche strategies which were not easily available, but you need to be very selective. We have also seen in recent years big launches of prop desks that have now closed because of lack of performance.

In the past, investors have been deceived by index performances, but if you look at some very good hedge funds that have been outliers you will find that even in difficult times they still outperform. I believe that there are still very talented hedge fund managers you can invest in if you have a robust selection and investment process.

In terms of market opportunities I believe that central bank intervention has created a lot of liquidity in the market and removed the extreme market risks we had before. This is creating a lot of opportunities for hedge funds. In the long/short equity space, for example, equity correlation which was around 80% for two or three years has now declined to 50%. With a 50% correlation you can generate alpha on your stock picking on the long and the short side, this is my first point.



On the global macro side you see a similar development – global macro managers usually construct portfolios with directional trades, but most of these trades were also very correlated. When something went wrong they were challenged in creating a balanced portfolio. Today we are starting to see some kind of de-correlation between different regions – U.S., Europe and Japan – so you can now construct a portfolio that is more diversified.

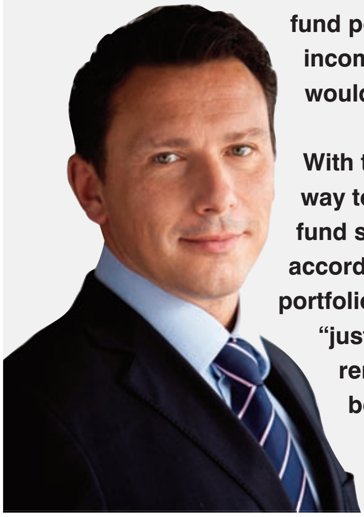
Liquidity is also a little bit better, which is good for event driven funds. People have been expecting merger arbitrage to come back for two to three years, and it seems that also here opportunity is starting to come back. Overall, I am confident on the opportunity set for alternative strategies.

Nathanaël Benzaken: I would like to add two comments to this. I think we have a challenge we can't ignore: working in a competitive market means that we not only need to deliver strong absolute returns, but also strong relative performance. Therefore, we keep asking ourselves how we can improve the marginal risk-adjusted performance for our investors.

One route we decided to go for is the so-called "early stage" and niche managers. It is not so much that this is highly innovative. Rather, there are more and more out there as the result of new banking regulations restricting proprietary trading. And because we have built strong hedge fund research capabilities, we think we have an edge in terms of identification of new potential talents. With such an initiative we hope to be able to differentiate ourselves more from our peers. We genuinely believe that the managed account route makes complete sense with such manager profiles as the business risk is quite material.

My second comment is about performance expectation. Return expectations are not 10, 15 or 20% anymore. Actually if you ask the pension funds community out there, their return expectations are between 6 and 8% above inflation.

In this context, what matters is the ability for the whole portfolio to match the liabilities. With this in mind, we could re-think the way we position alternative investments in the global portfolio. Historically, the hedge fund portfolio used to be separated from the so-called traditional book, i.e. the long only fixed income and equity portfolio being fully separated from the hedge fund portfolio, hoping that it would improve the general risk/return characteristics of the global portfolio.

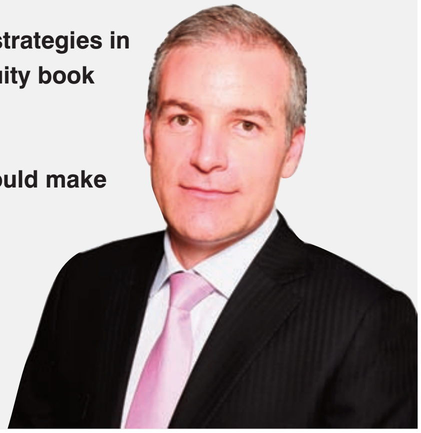


With the upcoming AIFM and the onshoring of hedge funds, there may be a new, more efficient way to use hedge funds in the global portfolio. One way to do that is stripping out each hedge fund strategy based on their underlying asset classes and reconstruct the global portfolio accordingly. Now you have long/short equity and event driven managers with the long only portfolio, the long/short credit managers alongside the credit and fixed income book. These are "just" a different way to extract alpha out of the same asset classes. CTA and global macro remain in the "Alternative" book with the ambition to provide additional de-correlation benefits and as some call it, act as shock absorber. This model is clearly getting traction, with the help of the new regulation.

Nathanaël Benzaken

One condition though for this to happen: access detailed and frequent transparency. This approach can only work if you are able to measure your total equity exposure, your total net sensitivity to interest rates and credit spread etc. across the entire book made of transparent long only and less transparent hedged strategies. With the proper technology and processes, managed account is the best route to get this desired transparency and execute such a portfolio construction.

Xavier Lattaignant: This is very interesting – at SCOR, we are also adding alternative strategies in the equity portfolio to reduce volatility. The goal is to create more convexity in the equity book by adding convertible bonds, volatility strategies and long/short equity funds.



However, in the fixed income bucket, even if we identify hedge fund strategies that would make sense in our allocation, the cost of capital associated with hedge funds makes it uncompetitive with direct fixed income investments. According to different capital models (Solvency II, rating agencies), an investment in a bond would have a cost of capital between 0% and 15% depending on the rating, while investing in a hedge fund that is undertaking similar strategies with hedges would increase the cost of capital to 49%, making it five to 10 times more costly.

Matthias Knab All of you are based here in France. How is France serving you as the base for your business, and what type of developments do you see for the alternative investment industry here?

Jean-François Comte: Independent asset managers in France can succeed, we have great examples of well-known success stories. The regulatory framework in France is fine, there is plenty of talent and a competitive infrastructure. The main challenge is a one of perception. Managers of absolute return strategies like us often get asked why they are based in France? Especially when we are raising funds outside of France. There seems to be a general perception that we are more constrained, almost "too regulated to perform". In fact, there are many French/European UCITS funds that perform better than offshore non-regulated funds within absolute return strategies. Our UCITS merger arb fund consistently outperforms the HFR Merger Arb Index since inception, even though its constituents are offshore funds; and we provide daily liquidity. Then again, it's a matter of educating the larger investor community, and there is a lot of work to fight inaccurate perception.

Jean-François Comte On the positive side, independent managers are usually able to work with large, established financial institutions in France. We have one of the largest, most powerful asset management industries in France and some of the largest banks in Europe. We have been able to work with several of these institutions and I believe this speaks quite highly of the standards of collaboration we can have in this country. This is a factor that is extremely valuable for boutique firms like us.

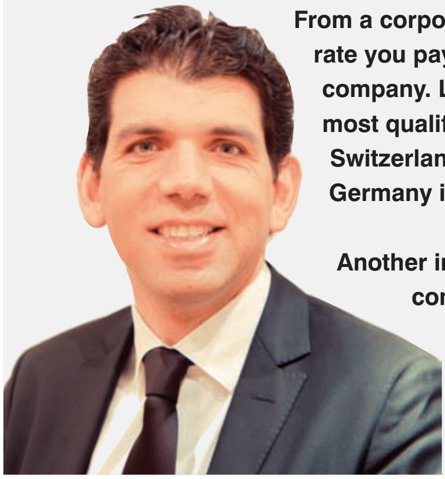
Now, if we step back, the issues we face in France as a business, outside of a perception issue, are not specific to our industry; the reflection unfortunately goes well beyond asset management. Our country suffers from a rigid and costly labor framework, and the tax burden is simply too high, especially for small and mid-size corporations. If we look at an industry like ours, where you can easily move a structure and basically run the same exact activity across the border in London or in Geneva, the debate about competitiveness even within Europe takes all its sense. We provide the perfect example of why having the EU without harmonization is a nonsense. We can't blame our neighbors for playing their best hand; our political leaders have to force the conversion. This is probably a matter of time, just like the end of tax-havens.

Paul Beck: I would even go a step further. France has a perception issue, an image issue. This perception issue is especially true in the financial world and you can see it within France itself and also from the outside. In France the banks or the finance industry in general are often seen as bad, they are blamed to be the cause of the crisis and they are greedy. You don't see a lot of people out there that are supporting the finance industry, especially when it comes to the political level.

On the other hand there are a lot of positives in France and in the French financial community. Despite the mad image, I think the reality is better than the perception. That's a real shame because you have a lot of talent, a lot of really good companies, both in the finance world and in general. And yet France has difficulties overcoming the image that it has.

Paris is one of the main financial centers in Europe after London, and it has some large successful financial players on the buy and sell-side. It will be important to work on that image trying to reverse it. But unfortunately in the last few years it has rather worsened than improved.

Jad Comair: I totally agree that we deal with an image problem for the financial industry in France. When we left Société Générale last year and decided to start Melanion Capital, we analyzed where we wanted to be based. Obviously we liked being based in France, but still from a business perspective setting up we needed to do an unbiased and comprehensive screening of the different countries and different cities where to launch. In doing this research we saw that on paper, France was much more competitive than all other places or cities.
From a regulatory perspective, the AMF is one of the toughest and the most respectable regulatory entities in Europe. For instance, as Edouard was saying the whole AIFMD regulation that is coming is already in place here. So from an investor perspective, a fund manager should inspire more confidence when regulated by the AMF rather than by some other regulators in Europe.



From a corporate perspective, the Income Tax is 33% which is close to the average corporate tax rate you pay in Europe. You also must not forget all the indirect taxes you pay when running a company. Labor costs is one of them and France's financial talent is one of the cheapest and most qualified in Europe. At least definitely cheaper than the equivalent talent you find in Switzerland or in the UK which are the two main competitors, maybe even cheaper than in Germany in certain expertise.

Another indirect tax is real estate. France is very competitive and inexpensive when compared to Switzerland and the UK. There are many more other advantages. The government here is very supportive of people launching their companies. For instance, we received subsidies and tax exemptions from the government to launch our investment company in Paris, which is quite unique. You will not find it anywhere else.

Jad Comair The other question investors tend to ask us is about the level of personal income taxes, like "how can you survive paying 75% tax?". Investors worry about a manager's incentive to generate returns, when his personal income is paid back to the government.

Matthias Knab Do you get asked if you are considering moving to Russia like Gérard Depardieu who now holds the French and the Russian citizenship?

Jad Comair: I won't comment on this, but what I can say is the following. First, remember that the 75% top tax bracket is for two years only so hopefully afterward we'll come back to a personal tax rate that's in-line with the rest of Europe, like it has always been in the past. Second, you need to keep in mind that if the company you run makes millions or billions, you only pay income tax when you take the money out of your corporation. Many people decide to leave the majority of their wealth in their company and grow it via a multinational route. This is what people across all industries in France have done in the past and keeps on doing. France has many residents that are on Forbes list of billionaires, so if it was so impossible to make money in France, that would not been possible. Instead of putting everything into in their personal accounts, they opted to build empires, and this is totally feasible in France.

Also let me tell you that there are a number of taxes and costs you have to cope with if you are living somewhere else. For instance, when we did our comparative screening, we looked at the personal costs of moving to Switzerland or to the U.K., and we noticed that rents were higher, schools were more expensive, cost of living was more expensive, and so on. So what isn't charged from your top line as a tax, will be taken from your bottom line by means of higher prices or less exhaustive public services.

Frederic Lebel As a Swiss living in Geneva but also working in Paris, I can comment on this from the outsider's perspective. To some extent France has been blessed not to have a stronger finance sector – just look at the number of jobs lost in the City of in London, where in excess of 100,000 jobs were lost due to the crisis. Switzerland was hit too and it unfortunately looks like our country is bracing for being hit more.

While not easy here either, the problem is different in France as it started from a lower base. To some extent, France has been advantaged by the fact that it did not start off with a bloated financial sector to begin with.

Secondly, as I mentioned I am leading a team in Paris with which has now been working together for about five years, interacting with regulators, compliance officers, lawyers and several other third parties within OFI Group. I can say that the quality and qualifications of the people has always been high, both in terms of education but also in terms of work ethics and ethics generally. I am very comfortable saying that I had the chance to interact with a number of world-class people in Paris.

Edouard Viellefond Let me also add that historically the financial industry here has been to some extent handicapped by our highly developed regulation and ethics, and the lack of level playing field across Europe in terms of regulation.

Fortunately, since the Larosière report, a lot of progress has been made. New authorities such as ESMA and ESRB have been set up. Among ESMA's objectives is the creation of a single rule book, currently underway, and the convergence of interpretations among EU national competent authorities: so, things are changing and almost every day we discuss convergence issues with Luxembourg, the UK, Ireland, or other countries. Basically, the debate on the common interpretation of rules – which would never have happened before 2008 – is now taking place within ESMA, and, what's more, in Paris!

Edouard Vieillefond: So, regulation keeps changing. More and more powers are now in the hands of ESMA to impose a level-playing field in Europe and coherent implementations of rules between European regulators. One recent example was the debate on the interpretation of the trash ratio in UCITS, for which Luxembourg and France had diverging views. We are happy that this was solved: ESMA issued a very clear opinion which all regulators will now have to comply with. Another example: we are now having an interesting debate on how we will amend the guidelines on market making, and you can expect interesting things to happen on this topic soon.

This being said, there will be a very important debate in UCITS 6 about the eligibility of derivatives within UCITS. The relation between strategy and regulation should be made clearer. What kinds of strategies are acceptable in a UCITS? Are derivatives the problem - we don't think so! – or is the problem more about the understandability of the payoff structure? Should all UCITS be sold without suitability test and considered simple, non-complex, as per the MiFID wording? We don't think so, or else it means that sophisticated strategies should be banned from UCITS, which could be detrimental to investors at the end of the day. So we have to think about optimization between strategies and regulation.

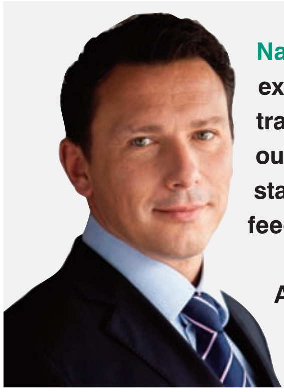
And my last point is about regulation. I think everything has been said on the situation of France, a number of reports have been published on the role of Paris as a financial center, including the Europlace recommendations and Thierry Francq's report on the future of Paris as a financial hub. I think some changes are underway on these issues and we are clearly at the moment of truth.

In this changing environment, the AMF will play a key role: we will soon submit our new strategic plan for consultation. It will be very much focused on giving more meaning to finance, on being more didactic towards the public at large, but also towards decision-takers at the political level.

Matthias Knab At our recent Hong Kong Round a participating lawyer who is active in fund formation predicted that in the next couple of years AIFMD compliant funds will become a brand on its own, apart from UCITS. Do you agree?

Edouard Vieillefond: Yes, I think AIFMD compliant managers could benefit from a brand effect in the future, but in a way somewhat different from UCITS because the UCITS brand is attached to the funds themselves, not to their managers. The political agreement at G20 level was to regulate managers of AIFs, not AIFs themselves, so AIFMD is focused on the managers only. However it does not mean that product brands could not be developed in the future within the AIFMD environment: for instance, through the launching of long-term vehicles to finance projects with a social impact or infrastructure projects. The EuVECA and EuSEF labels created recently provide good examples: these are a particular kind of AIF, but they were devised by the Commission as brands as well.

Overall, I would expect that the new categories of AIF will provide favorable wrappers for the development of new strategies in the future, which will be easier to explain to investors, thanks to the common rules on depositories, valuation, reporting, and the management of conflict of interests. This should benefit retail investors as well, as they will be able to access AIFs that are properly regulated at European level (whereas until now, they would only consider UCITS funds).



Nathanaël Benzaken: I think Edouard's comments are very interesting. Our strategy with AIFM is to export it beyond the borders of the European Union. We have already started to progressively transition from being offshore in Jersey to onshore in Luxembourg. We have been successful with our UCITS in Asia. South Korea for instance adopted UCITS as a proxy for regulated fund. We have started working to promote our new Luxembourg platform. We have got already encouraging feedback from investors in Latin America.

All European asset managers collectively will have to join forces to make sure the AIFM concept is successfully exported.

Edouard Vieillefond: What you say is very interesting and demonstrates how important it is for the UCITS brand to be respected across the EU and UCITS product rules homogeneously applied across all member states, otherwise countries in Asia or Latin America will start to have doubts on the implementation of UCITS.

The same applies for AIFM and the marketing of AIF outside the EU. It can only become a successful brand abroad provided the various standards and guidelines issued by ESMA are applied by all national competent authorities of the EU in a spirit of full convergence and with the goal of achieving a level playing field. This is what the AMF is calling for. We simply will not be credible with investors in Hong Kong or Singapore if we start applying the rules differently across the EU on such topics as risk management or the depository.