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Editor's Note

Opportunities for alternative investment managers as more Middle Eastern Sovereign Wealth Funds move towards Endowment Model of asset allocation

Some of the large institutional Gulf-based allocators whose assets are derived from petrodollars are displaying an increasing resemblance to the Endowment Model of asset allocation. When oil prices were high and expenditures were relatively low, petrodollar derived sovereigns ran large surpluses and injected capital into Sovereign Wealth funds very regularly to be allocated to various investments, much of which was invested passively.

Now that many of these sovereigns are in deficit, the funds have had to become more selective with their investments and target higher returns to preserve intergenerational equity. This means that a higher proportion of the portfolio is allocated to alternative investments such as hedge funds and private equity.

Generally, investors in the Middle East want to diversify away from their local assets, whether it be private equity or real estate. Given the high valuations across traditional markets, they want to find real alternatives. At the same time, the investors have become pickier, but also more realistic in their expectations. Also the family office space is embracing and seeking education around alternative investments, often with the help of product and solution providers who are able to demonstrate specific solutions and how an investment fits into an overall portfolio, rather than following a product-focused "hard" selling approach.

Innovation in Finance - VC and Tech boom

Dubai 1.0 was all about trade and pearls. Then came 2.0, which was about real estate, buildings, and infrastructure. Now Dubai is moving to a 3.0 phase, which targets a knowledge-based economy. Key players such as the Dubai Future Foundation (DFF) – an umbrella of entities aiming to develop Dubai as one of the key players in the knowledge economy – or the US$275m Dubai Future Accelerators (DFA), an ambitious program to pair the world's top startups with government bodies in Dubai, have started to make their mark.

Innovation also keeps happening in finance. Dalma Capital's fund platform offers an attractive range of cutting-edge alternative investment funds to global investors that managers can start with smaller amounts of seed capital – sometimes with as little as $5m – and in much shorter timeframes. Several players have also developed sophisticated managed account platforms, which are the answer to the trust concerns of many investors in this region.

The Opalesque 2017 Gulf Roundtable, sponsored by Fundana and Dalma Capital, took place in Dubai with:

1. Dr. Ryan Lemand, Managing Director, Asset & Wealth Management , ADS Securities
2. Zachary Cefaratti, CEO, Dalma Capital Management
3. Cedric Kohler, Head of Advisory, Fundana
4. James Masacorale, Vice President of Group Investments, Al Tayer Group
5. Nick Asllop, Senior Portfolio Manager, Dalma Capital

The group also discussed:

• Outlook for hedge funds (page 22) and real estate (page 23)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT):

Zachary Cefaratti, Cedric Kohler, Dr. Ryan Lemand, Nick Allsop, James Masacorale, Matthias Knab

Introduction

Dr. Ryan Lemand
ADS Securities

Ryan Lemand, I am Managing Director, Asset & Wealth Management, at ADS Securities. ADS Securities is an Abu Dhabi based and privately owned international financial services company. With regional offices in London and Hong Kong it offers unique wealth management, asset management, capital market and trading services delivered by market experts.

Before joining ADS Securities, I worked for the UAE Federal Government as the Senior Advisor and Head of Risk Management within the Securities & Commodities Authority. Prior to that, I was the Lead Portfolio Manager (credit derivatives) at Fortis Investments in Europe. You could say that while initially I was focused primarily on developed markets, I am now much more focused on emerging markets.

On the Wealth Management side at ADS, we have specialized accounts for ultra-high-net-worth individuals and institutions for which we provide execution-only services. On the Asset Management side we manage discretionary portfolios on behalf of our clients. We also work as an investment advisor for external funds and provide a platform of distributing third-party funds, in addition to currently building a managed accounts platform.

Zachary Cefaratti
Dalma Capital Management

Zachary Cefaratti, I am CEO of Dalma Capital Management. We are a hedge and private equity fund platform and accelerator focused on helping emerging managers, family offices and institutions set up and manage alternative investment products and portfolios. Our platform is based on three pillars with the first pillar being our global legal & regulatory framework, the second pillar being our institutional operational infrastructure and the third pillar being our vast capital introduction network.

Recently, we have also expanded our platform to serve small and medium sized family offices that are seeking to institutionalize their operations, leveraging our legal and operational infrastructure, market insights and asset management experience to manage the family office portfolio the way an institution manages a fund.

We are headquartered in the Dubai International Financial Centre (DIFC), which is an offshore legal jurisdiction within Dubai that operates under a common law framework with the Dubai Financial Services Authority (DFSA) regulating financial services firms in accordance with the highest international standards.

Cedric Kohler
Fundana

Cedric Kohler, Head of Advisory at Fundana. Fundana is an investment boutique based in Geneva focusing on alternative investments and hedge funds in particular. The company was created in 1993 and initially managed alternative investments for the Credit Suisse Group. Today, we manage over a billion dollars across two fund of hedge funds and an advisory service to create tailor-made mandates.

We serve on AIMA's research committee, on SFAMA's Alternative Expert Committee and on the Swiss Hedge Fund Council.

The reason why I am here today with you, as opposed to doing a Roundtable in Geneva, is because we happen to have about one third of our AUM from the region and so naturally, we are regularly here. In fact, one of our funds is ESCA approved. One initiative that we help with, for example, is the Alternative Investment Management Summit. In addition, we often organize education sessions to help distinguish facts from opinions in the hedge fund industry.

I joined Fundana back in 2011 and prior to this, I worked for Lombard Odier, a Swiss private bank, and before that I spent 10 years in the US where I worked for Citadel Investment Group in Chicago, Merrill Lynch and UBS.

James Masacorale
Al Tayer Group

James Masacorale, Vice President of Group Investments at Al Tayer Group. I manage ITG, which is the investment arm of the Al Tayer Group, and look after the corporate M&A function as well as group investments.

Nick Allsop
Dalma Capital Management

Nick Allsop, Senior Portfolio Manager at Dalma Capital Management. I manage the Unified Return Fund, a macro discretionary fund investing in G10 FX and interest rates. On the interest rate side, I exclusively invest in exchange traded products, for example STIR futures and bond futures on the CBOT/CME, EUREX and LIFFE. On FX I trade all G10 currencies, predominantly cash but some options as well.

Matthias Knab Zachary, at Dalma Capital you work with some of the most exciting and newest strategies here in the Gulf. Can you please update us on the most recent developments both on the fund management and also on the demand side for alternative investments here in the UAE and the Gulf?

Zachary Cefaratti: We are increasingly working with what we refer to as emerging alternative or emerging opportunity strategies. This is an area where the lines between hedge and private equity can be blurry. The funds can generally be categorized broadly as private placements, but many would be falling under the private equity umbrella due to the fact that for a lot of the products we see, the greatest opportunities are on the illiquid side.

Our core product and our original foundation is on the hedge fund side where we have been managing a standard global macro discretionary strategy. We are working on our 12th fund at the moment. Some of the funds we have actually seen grow most recently are in the **private lending space**. These funds take advantage opportunities in the lending market that are neglected by banks or where banks have had to take a step back due to changing regulatory frameworks such as Basel III and Dodd Frank; which affect capital charges and requirements for banks. Many of these attractive lending markets have become dislocated as a result, creating attractive opportunities for private investors.

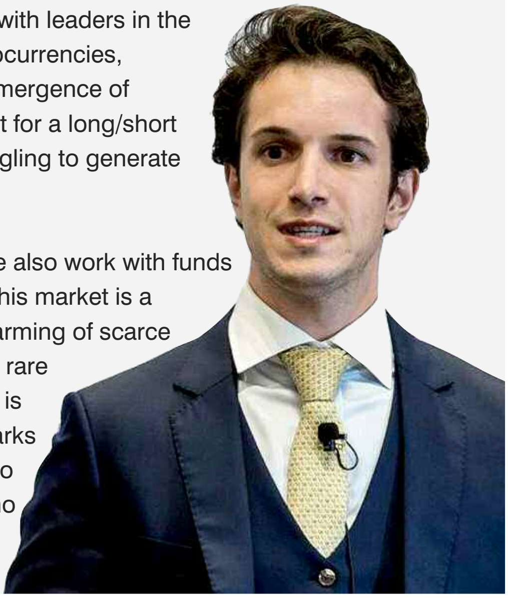
In addition to these funds, we also have a relative value arbitrage fund that is currently fully subscribed, but which we plan to soft open again in Q3 or Q4 2017 due to increasing evidence of spare capacity in the markets it trades.

We also have an exciting upcoming Art Fund that does not actually invest directly in art, but which operates in a specialized, niche segment of the auction financing space, generating very attractive yields with moderate volatility. Due to the niche market in which it focuses, this fund has a limited capacity.

Due to Dubai's proximity to India as well as recent changes to India's tax treaties with foreign fund jurisdictions, we are seeing the Dubai International Financial Centre increasingly emerge as a hub for investments into India across the liquidity spectrum, from Venture Capital and Private Equity to listed instruments. One of our newest funds invests in last-mile real estate development across India and we continue to seek out new opportunities in this exciting market.

We also have funds investing here in the UAE, including a fund focused on the development of leisure properties in Ras al-Khaimah, an Emirate near Dubai that is rapidly emerging as the next leisure destination in the Gulf due to its idyllic landscape and climate.

One of our newest funds is a **long/short cryptocurrency fund,** which is partnered with leaders in the cryptocurrency space and operates a long/short strategy against a basket of cryptocurrencies, benchmarked against the bitcoin. The volatility of cryptocurrencies as well as the emergence of efficient shorting mechanisms in cryptocurrencies has created an ideal environment for a long/short fund to generate alpha – especially at a time when many long/short funds are struggling to generate meaningful returns due a a lack of volatility in traditional markets.



With Dubai being a long and well established gateway for investment into Africa, we also work with funds investing into opportunities on that continent. One of the most interesting funds in this market is a **conservation fund** that invests in a burgeoning segment of exotic agriculture the farming of scarce species. This fund finances breeding of Rhino, Cape Buffalo as well as increasingly rare breeds of Impalas, Gazelles and other animals native to the Savannah. This market is very dislocated and undercapitalized, with excess demand from Africa's national parks and ecotourism industry, which are struggling to maintain healthy biodiversity due to human development. This fund provides a great opportunity for action investors who are seeking profitable opportunities within an ethical, eco-friendly portfolio.

Matthias Knab What's the average size or the range of size that you have on the platform?

Zachary Cefaratti: One of the greatest benefits of working with a fund platform is that it dramatically reduces the barriers to entry and critical mass needed to launch and sustain a fund. Changes in regulation and the market over the past decade have dramatically increased the barriers to entry for prospective fund managers which require increasingly sophisticated front to back office infrastructure, compliance support and legal structures. This has not only increased the financial cost of setting up and managing a hedge fund, but the time and complexity of doing so.

It is generally thought that in the current environment, funds require $150 million - $200 million in seed capital to launch independently and sustain the fund management business behind it. Seed investors such as IMQubator, which puts this critical mass figure at €150 million, have had to step back.

The platform model allows fund managers to leverage resources of Dalma Capital to successfully launch funds with smaller amounts of seed capital and in much shorter timeframes, allowing the fund manager to build a track record over time, raising funds from established relationships of the platform and utilizing its legal, compliance and operational infrastructure.

We have funds launching with as little as $5 million, which is the smallest that we are able to accommodate sustainably and which we consider in very rare circumstances when we have strong convictions about the propensity to raise further capital for the fund.

We also have larger funds and portfolios on the platform in excess of $150 million, with managers that recognize that despite the potential to sustain an independent fund management operation, the platform model enhances the profitability, sophistication and propensity for further capital raising with far fewer headaches.

The idea of our platform business is that a fund manager only needs to bring and focus on their seed capital and their strategy. We are extremely selective about the funds that we work with and find ourselves having to turn away the great majority of managers who approach us. We only work with funds that have already achieved a sustainable critical mass of seed capital and for which we have a high conviction on our ability to raise capital as well as the managers' propensity to outperform.

Matthias Knab Where do you distribute the funds? Where do you see most demand for this type of alternative funds?

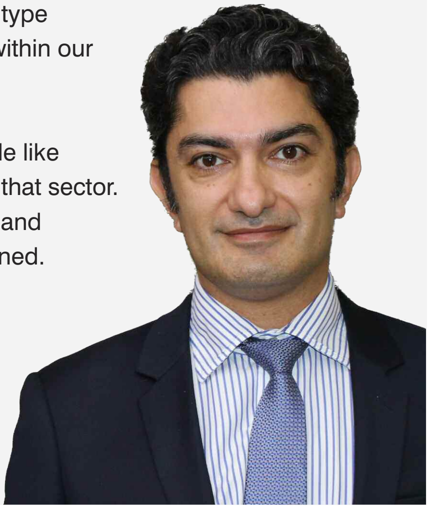
Zachary Cefaratti We currently work predominately with institutional investors and family offices. At the moment, most of our AUM is coming out of the GCC, India and Europe.

Matthias Knab Who else has more insights about the demand here from the Gulf for alternative investments?

James Masacorale: Certainly with the families over here, I think there is a bigger level of comfort with the more traditional types of alternative investments, so private equity and to a smaller extent hedge funds. We are also beginning to see a lot of venture capital coming to the region, which was scarce or even absent two years ago.

The VC players are mostly out of the US, but there are some local and regional firms, which are looking to raise funds and are invest in interesting projects focused on the region.

Particularly in the family office space where wealth preservation is key, we have to be very careful about the alternative investment strategy we adopt. Some of these offerings are a little bit more advanced in terms of risk, so I believe the majority of my peers here tend to stay in traditional alternative or private equity type investments, investments we can understand better or use to diversify or reduce volatility within our portfolio.



Education around alternative investments is of course extremely important, and people like Cedric have been extremely helpful in educating us on hedge funds and how to approach that sector. I believe a good number of the family offices in the region are on this journey of education and diversification, and we will start to deploy in the near future once this education has happened.

Family offices don't tend to have the size to be able to do all of the research and in depth tracking in-house that is required with some of these alternative investments, and so working with a firm like Fundana which has experience, manpower and extensive research capabilities which is required for a close monitoring of your investments provides comfort.

Dr. Ryan Lemand: I regularly speak and engage with a wide range of mid-sized families in the UAE, Saudi Arabia, Qatar, Kuwait, and across the MENA region, and it's really a quite diverse universe. A good number do not have the sophistication and consequently prefer straightforward and simple products. They do not want a 'black box', and to a certain extent go for the option that is 'lightly managed.'

By contrast, others may have very specific investment ideas. For example, a family office recently came to us indicating that they would like to invest in US petrochemical equities. So, together, we defined a very specific framework and parameters around which we built a portfolio. This portfolio would remain to a certain extent static as long as it is moving within the parameters defined with this family. We have defined the volatility, the Sharpe Ratio, and the approximate revenue to extract from it. The portfolio runs and is therefore managed on a discretionary basis within those tight parameters. That is just one example of the way one particular family office runs – they know what they can expect at the end of the year.

There are other families who do not want to see any securities or financial products; they are simply interested in deals and in IRR. So they would typically look for **club deals**. The latest example of this is the Airbnb deal – many families prefer this type of Private Equity deals. There are also different groups like the Paris Club and others, who offer different things these families can go for.

There may also be a few families that are not particularly sophisticated, and with those there is certainly an element and focus on education. Their portfolio may look inefficient sometimes because it's not very well-diversified. They basically buy equities on the Dubai Financial Market or Abu Dhabi Exchange, and as a result the portfolio is very concentrated and especially volatile for the revenue they are getting. Our approach is to suggest: "Let's stop, think, and then act. Let's review the portfolio so we can advise you based on your risk return parameters and risk appetite. We can then build a portfolio that can potentially generate the same revenue, but reduce your risk substantially." This can be achieved by using different products and investment strategies.

We explain how, for example, if you look at CTAs or trend-following strategies and plug them into an equities portfolio, they can substantially increase the Sharpe Ratio and reduce volatility over a short period of time. You also preserve the same return you have been used to getting. This is when you see the sparkle in a client's eyes and they say, "Okay, why not?" Again, often this can be a very tedious and long process, but this is where we as wealth and asset managers are focusing at the moment.

A lot of our work is advisory, where we don't make any money and frankly, do not want to make any money. For us, it's a form of contribution to improve the education and the sophistication of these families, and then ultimately, these families will come to us and ask us for our products and investment management expertise.

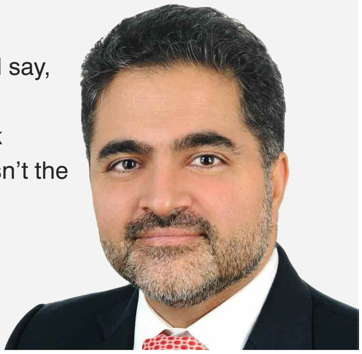
For example, I started talking to a Saudi family office about 18 months ago who asked us for US petrochemical companies equities, and only last month did we finalize the mandate. It has taken one-and-a-half years of meeting, educating, building trust and showing them what can be done.

And then on the other side of the spectrum there are obviously the sovereign wealth funds and the very large quasi-government families. These investors are very well-advised and tell you exactly what they want.

Finally, if you like you can define a third sector, it is the ultra-high-net-worth individuals. These are very wealthy individuals or small families, but with little expertise of the financial world. We actually don't look at this sector for a number of reasons.

Matthias Knab Can you explain us why?

Dr. Ryan Lemand: Well, for example, such an ultra-high net-worth investor may come to you and say, "I want to make 50% a year." Well, I probably can generate 50% a year with a lot of leverage by following MT4 signals, for example, on foreign exchange pairs but with what cost? What's the risk cost? So things get very tricky and you can get some big suitability question marks when there isn't the sufficient knowledge base and/or experience in the financial markets.



Matthias Knab When you construct these portfolios, how important are things like downside protection, absolute return, diversification, all the things people talk about as the traits and virtues of alternative investments? Do you hedge, for example? Are you asked for this as well?

Dr. Ryan Lemand: It depends on the family, and on what their appetite is like. So yes, we have been asked if we can hedge specific currencies, a specific portfolio, or commodity. Yes, we can do that. Others don't want to hedge and are happy with the exposure.

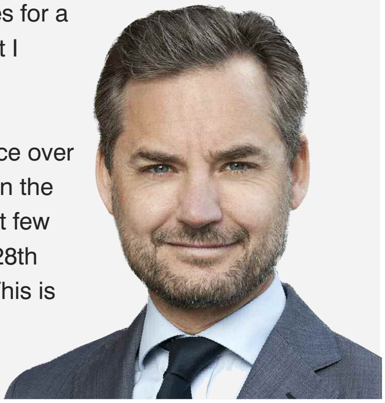
When we work with a client, we do lots of simulations and we show paths. For example, "This is what can happen if oil prices drop and this is what happens if you don't hedge, etc." Obviously, this can be speculative at times, especially when considering geopolitical events. However when it's really and truly financial, we can clearly demonstrate the different paths a portfolio can take so that the investor is best equipped to decide on what he wants. We like to empower the investor as much as possible so that they may take well thought investment decisions.

Again, within the asset and wealth management business at ADS Securities, we do not do commingled products. We don't mix investors in one portfolio. It is one investor, one bespoke mandate. We are not in the business of selling 'off-the-rack' suits. The investor comes to us, we take measurements, we agree on the 'fabric' and then build a custom-made portfolio which is managed as such. We don't do active trading with turnover, churning and such. Instead, we clearly define what the investor wants in a far more strategic vs. tactical and trading-oriented format.

Cedric Kohler: Coming back to the question on demand for alternatives, I think it is coming back, but there is a tension which people are trying to ease.

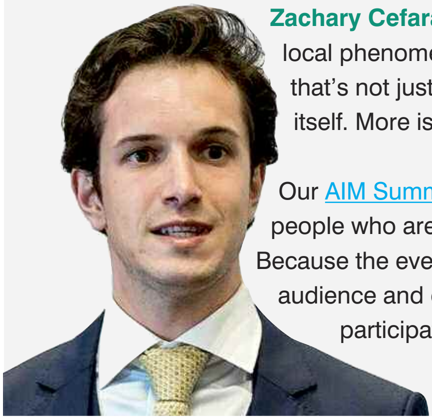
On one hand, **investors in the Middle East want to diversify away from their local assets** whether it be private equity or real estate. Given where valuations are across traditional markets they want to find real alternatives. And thus sometimes, hedge funds come up as a solution. On the other hand, they also have read in the press a lot of bad things about hedge funds. For example, they are scared that these funds are black boxes, illiquid, and are just looking to charge high fees.

And so, in trying to ease that tension, more and more potential investors are looking to get educated again on hedge funds. Specifically, they are trying to sort out opinions versus facts. This results in investors examining the space closely again and trying to define what could be useful for them. They ask themselves, *"Do I need hedge funds to diversify or to enhance returns? Should I invest in a multi-strategy fund or start with just one strategy?"* In short, **investors are pickier, but also more realistic**, about what they want to achieve with hedge funds. And I think it makes for a much healthier environment. To make a long story short, we are seeing a fruitful discussion that I haven't seen in many years.



Finally, I think the best way to highlight the demand is to talk about the AIM Summit's attendance over the last few years. This is the conference that we co-sponsor which will have its fourth edition on the 29th-30th of March in Abu Dhabi. The attendance level has increased continuously over the last few years and has now reached about 450 people. We will also have an education session on the 28th dedicated to family offices and sovereign wealth funds about hedge funds and private equity. This is promising and a testament to potential investors wanting to get updated on the space.

Matthias Knab And you remember the old days where there was this Terrapinn Hedge Funds World Conference here in Dubai? Those also were massive events, I guess the last or their biggest one could have had close to 1000 people. Then the financial crisis came and it all stopped. Any comment?



Zachary Cefaratti: I can comment on what we have see with a lot of events, and I think this is not just a local phenomenon, it's a global phenomenon. It is quantity over quality at most fund conferences. And that's not just in speaker and presentations, but more often actually in the attendees - the audience itself. More is not always better in this industry as it dilutes the audience and the event.

Our AIM Summit specifically has been organized to focus on getting the highest quality attendees, people who are senior, people who are decision makers, people who are managing large portfolios. Because the event is organized on a not for profit basis, we have the ability to be selective with the audience and choose only those who we feel add value to the event through their attendance and participation.

Matthias Knab How many people do you expect this year?

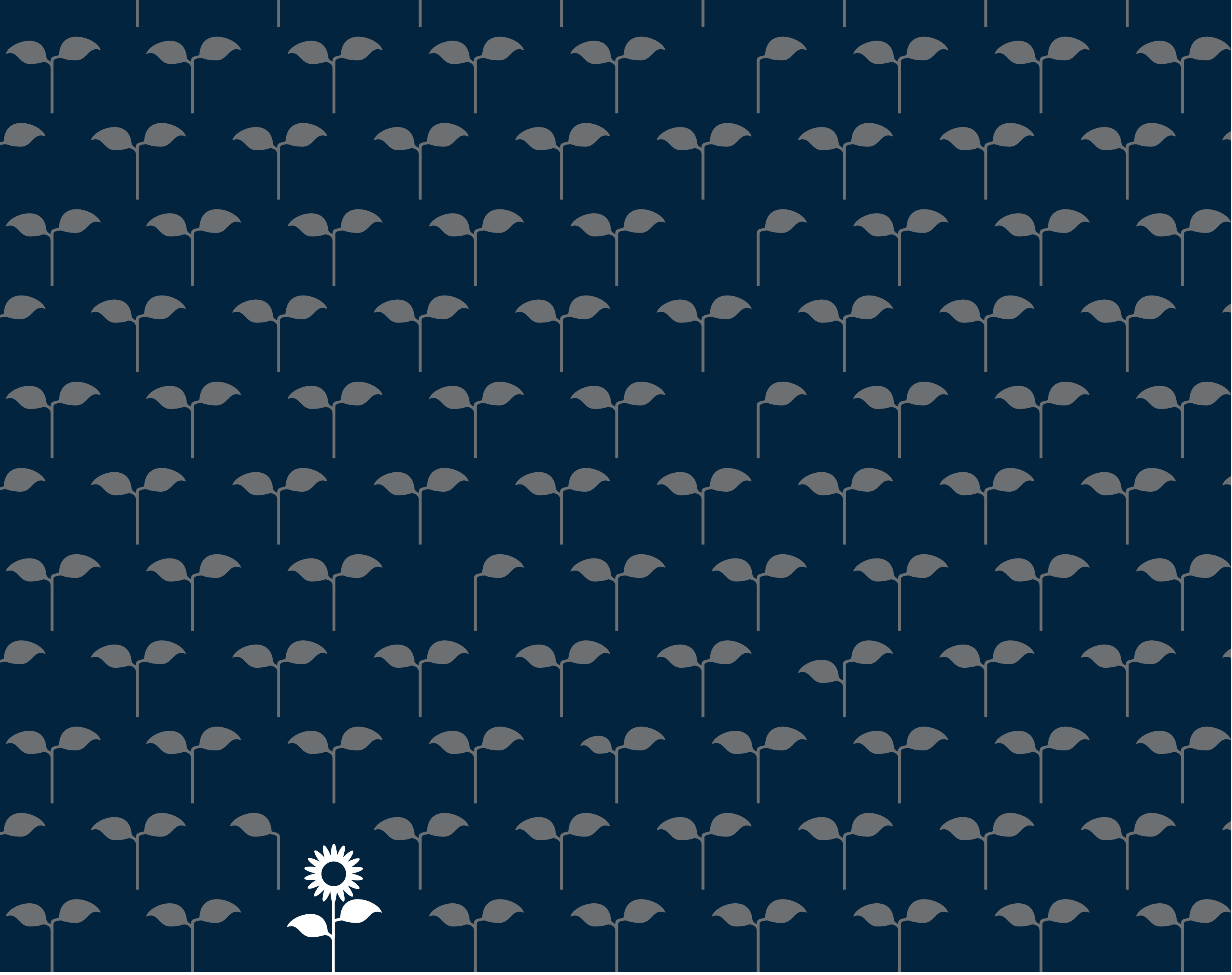
Zachary Cefaratti: Each year, AIM Summit grows significantly while at the same time becoming more exclusive. For the last AIM Summit in Dubai there were well over 1,000 applicants to register for the event, but we accepted fewer than 500 applications.

I expect us to continue to grow, so we expect at least another 400 – 500 person event, but we will continue focusing on ensuring that the right people are attending – senior decision makers predominately on the buy-side, portfolio managers, C-suite, managing directors – people who are actually making decisions and people who are actually able to make contribution not just through speaking but as an attendee at the conference.

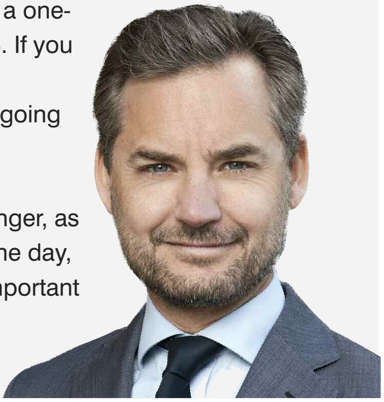
James Masacorale: Coming back on the education aspect here in the region, there was a certain trend in the past to invest in hedge funds, and some investors also suffered losses when doing so. Coming out of that, the education piece is very important. Understanding what a hedge fund does is one thing. A lot of people come to us and what they do is just to pitch their fund. But I think Dr. Ryan will agree with me here, **we also need to understand how a fund fits in the portfolio.**

To begin with, we have the mandate. Is it about preservation, growth, or something in between? The next part is to understand how a hedge fund will help versus the more traditional products that they tend to have, and will this be a volatility dampener or perhaps serve a different purpose in the portfolio? Will it be an alternative to fixed income, or will it be something to chase alpha?

I think once the families understand those two sides, they will be better able to understand which type of fund is going to fit. I think Dr. Ryan's approach, as he explained earlier, is very interesting. Maybe fund promoters should think about that as well. Rather than pitch a hedge a fund, understand what the family office really requires, understand the mandate, and then show how you can actually fit. Once the office understands better how the proposition fits, then the likelihood of investing will increase.



Cedric Kohler: This is a trend across the industry in general. Besides funds of hedge funds who have specific goals, there has also been a good growth on the advisory side. This also enables us to assess what the client wants to achieve. If possible, you can then tailor a portfolio that's specific to them as opposed to having a one-size-fits-all commingled vehicle. This advisory part has been growing systematically since 2008. If you have a client who clearly expresses what he wants and you are able to cater to his needs as a provider, it makes for a much healthier relationship versus just growing AUM where people are going to be disappointed because they thought they were getting X and they end up getting Y.



Dr. Ryan already referred to the longer time frames involved with this approach. True it takes longer, as the two partners really need to understand each other first (needs vs. skills). But at the end of the day, you know why they come to you and they know why they came to you. So, this has been an important trend even if it has slowed down the business. But in the end, I think that's for the better!

Dr. Ryan Lemand: The 2008 global financial crisis, without a doubt, caused considerable harm to the asset management business. Beyond this we also had several other outliers that damaged the reputation even further, including high-profile cases like Bernard Madoff and other lesser-reported cases that may have been smaller in scale but just as damaging. This is precisely why I have opted to chart a different course at ADS Securities – a bespoke approach to investment.

It is funny, sometimes we meet family offices and after some small-talk, they jump into things and say, "Okay, show me the products or the funds you have." When I respond, "Well, I don't have any, I'm sorry," – they look at you with bewilderment. I explain further: "I'm not here to bring you a fund and try to fit it into your global portfolio. No, I'm not here to do that. I'm here to see what you need, what your global portfolios look like. Then, I'll try to fill the specific gap or complete this global portfolio, or potentially replace the piece that I think is defective. I have nothing ready-made to sell."

Cedric is right in that this new approach has slowed us down, but *as asset and wealth managers the onus is on us to restore confidence.*

Prior to the crisis, hedge funds were highly sought after here in the region, but today, the perception of them has changed. You mention hedge funds and people quickly turn away; hedge funds have a sort of negative connotation for many investors in the region. For example, I have families who come to me and say, *"There is a great strategy that we have seen from this fund manager in London, but we don't want to send our money to London. We'd like to invest in that strategy but we won't send our money because there have been many redemption halts and liquidity issues with certain funds, during the crisis, that investors are nervous about it."* Many investors here sit on a pile of cash and they don't want to send it overseas. That is why at ADS we have invested heavily in building a **managed accounts platform.**

Managed accounts is the answer to the trust issues many investors have developed in this region. You create a managed account for them, their cash is custodized in the UAE or wherever they want in the GCC – in our case, in Abu Dhabi. We quickly create a segregated fund for them locally and then the external asset manager or the fund provider would manage this managed account as a separately managed account by replicating their strategy. Obviously, this cannot be done for $2 million. It has to be a big ticket. But this is an answer to, "I don't want to send my money to wherever..."

Matthias Knab Ryan, you mentioned before that you invest in the CTAs and that you do managed accounts with hedge funds. When you work with external alternative investment managers, how do you select them, what are your criteria when you use them as building blocks in a portfolio?

Dr. Ryan Lemand: While we start with a large universe as an open architecture platform, we are not really looking to become a fund supermarket. We are rather looking to work with a very small number of funds that are **conviction funds,** and on which we will do operational and investment due diligence. When the clients ask for this, we can demonstrate we have done this work and articulate why we believe that this is not a 'Madoff' – precisely because we've done our operational and investment due diligence.

When we select funds, we have our own convictions. At the moment we do believe that given the valuations we have around the world, specifically on equities markets, CTAs and trend-following make a lot of sense. Looking at fundamentals today, I think it is hard to explain the valuations you see around the world from a fundamental perspective.

Today, interest rates are incredibly low. The system is flushed with cash and this cash is going directly into the equities markets. This is why we see a Dow Jones at 20,000 points. Do I think that 20,000 points are just fine today? From a fundamental standpoint, I don't think so. So I myself would prefer to move away from fundamentals. Obviously, I need to make sure that the company is sound, and so I'll look at trends. I'll be a stock picker. I'm going to do things bottom up rather than top down going forward.

So this is why we look at trend-following, at CTAs, as well as stock pickers or opportunity spotters for the coming period. Again, it's a conviction trade.

I want to point out that we are also looking at equities here in the region, specifically **emerging markets** in general and then the UAE specifically. Why? I think there are some concerns regarding the developed world. I'm very worried about Europe. My home country, France, I believe is in a very difficult position. The situation is also very difficult in Italy, where the banking sector is facing some serious issues. Spain seems to be doing well, Germany is growing, but for Europe as a whole I don't see big opportunities for growth.

In the US, valuations are very high. So for me today, again from a conviction perspective, I would look at emerging markets, but not just any emerging markets. I would focus on emerging countries that are undertaking reform. Emerging countries that are instituting reform are always attractive for investors, because generally this means things will improve, despite execution risk.

Just look at Saudi Arabia's 2030 plan. It's a very, very gutsy plan and there is significant execution risk, but they are reforming and they are improving. They have adopted the Gregorian calendar and are really changing and getting closer to the West. This is a place where I'll go long.

Matthias Knab Which other countries are you looking at?

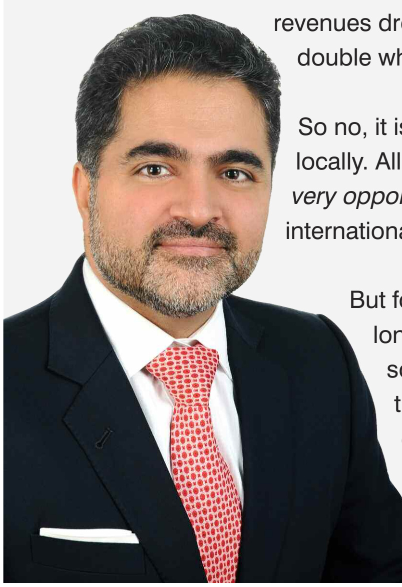
Dr. Ryan Lemand: I am also quite bullish here on the GCC. I strongly believe that thanks to the reforms and the improvements that are taking place, that this is an emerging area where I would go long.

Dubai has the Expo 2020 coming and it's something to look forward to. We'll see what's going to happen six months after 2020, but for now things are changing for the better here in the region.

James Masacorale: So Ryan, are you saying that GCC is a region to invest in? I wonder if you suggest that a proportion of assets should be kept locally even though they are currently very heavily invested in the region?

You've pointed to the high valuations in the US, I would imagine you are also saying that's it's probably very late cycle in the US which might be controversial around this table with the new highs it's reaching. I am not disagreeing or agreeing on this but very curious to understand your point of view. A lot of families in the region look to rebalance internationally.

Dr. Ryan Lemand: You are right, James, this is a huge dilemma. Basically, your revenues as a local family are mainly coming from here. This region has a very correlated economy. Generally, when oil prices drop, activity drops, your revenues drop. So generally if a local investor puts back cash or investments into this region again, it's a double whammy or a double risk for him.



So no, it is not advisable. I would not advise it, and this is precisely why ADIA generally does not invest locally. All assets are invested externally. However, I do believe that a portion of your portfolio can be *very opportunistically placed here in the region.* My previous comments were more directed at our international investors, because a large part of our clients base is European.

But for many of those European clients, we are bringing them to the region. This is a region to go long on at least for the coming two years. Pending execution risk in Saudi Arabia obviously, no social problems or political issues, no problem with Iran and President Trump – so certainly, there are lots of 'ifs'. But for the moment, the Dubai Financial Market (DFM) has done 5% as of February 12th. This is how much we make in Europe in one year. So there are opportunities to be made.

James Masacorale I am sure you also remember 2016, so it's a very volatile market, right?

Dr. Ryan Lemand: You are right, it is volatile, and hence again my focus on being very opportunistic. And internationally, you can focus on trend following or some smart beta strategies that can capture this.

So yes, *we'll come in very late and we'll go out very early.* This is what we do. Sometimes investors complain, "Why did you go in so late?" Or, "Why did you go out so late?"

But this is what my model is telling me. I prefer to secure this revenue for you at very low volatility rates and at a higher Sharp ratio than you would have expected had I entered very early or exited very late. This is again how we work with European clients.

Cedric Kohler: What I think our conversation is implicitly saying is that the world is becoming relatively complex either in terms of valuation, of investment flexibility, of regional allocation, or having the ability to go short. Well, isn't that precisely the definition of a hedge fund? Unconstrained portfolio construction?

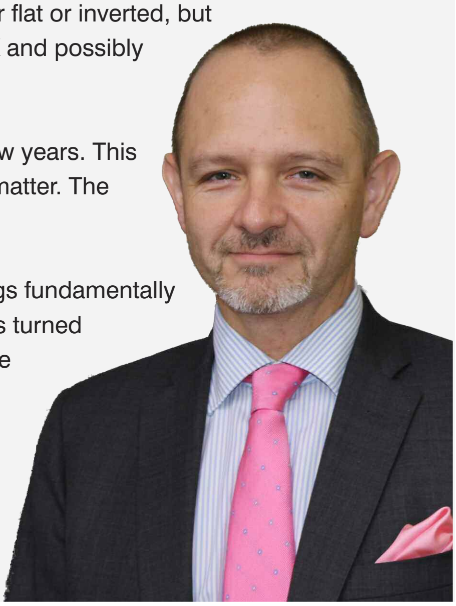
As such, we really think that this is their chance in 2017 to shine, to show that they have the ability to go where the opportunities are and to risk manage both on the long and the short side. Therefore, 2017 could be a very interesting year for hedge funds.

Nick Allsop: I absolutely agree that after years of financial repression in the **interest rates** sphere finally, at long last, it looks like we are seeing some movement on interest rates and a curve developing – no longer flat or inverted, but actually you're going to get a steepening curve, certainly in the US, potentially in the UK and possibly even Europe.

I believe there are opportunities now in fixed income that haven't existed over the last few years. This is a key attraction for the fund I manage, I can be short or long fixed income, it doesn't matter. The fund is in the right place and at the right time to profit from these opportunities.

The fund I manage is new. We began in September 2016. As I mentioned, I believe things fundamentally changed after the US election last year. I believe in the reflation trade. I think the Fed has turned mildly hawkish. I believe Yellen when she said that we're going to see two, possibly three rate hikes this year predicated on some fiscal expansion from the new President.

So to summarize 2017, a lot of opportunities to finally make some money out of rising interest rates.



James Masacorale: I have a quick question for Ryan – what are you views on regional venture capital? We have seen an **emergence of venture capital funds,** they are mushrooming up all over the place.

Not many have a track record, so they tend to be on the first fund, and if you are going to make an investment in any of those, it's very hard to pick because the lack of track record or being able to cash out.

Dr. Ryan Lemand: I think in the region and again specifically in the UAE, there are tremendous opportunities specifically in the technology sector or these new emerging sectors. There are technology-related companies that are up-and-coming and that are linked to the vision of the UAE.

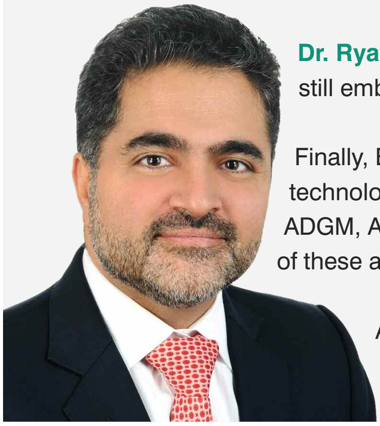
The UAE is one of the first countries that has transformed its government into an e-government. *Today in UAE, we have an e-government, we have an i-government, we have m-government; we have all of these: the mobile, the intelligent, the electronic government.*

Today, I can renew my license using my mobile from the comfort of my home. Meanwhile, back home in Paris I recently needed to renew my driving license; I kid you not, it took me five months and six visits to the police station to get it renewed.

So again, this progress is technology related, and all of it is home-grown and being developed here. Therefore I think there are opportunities to invest here in from a VC perspective, but again it has to be done in a very careful, selective, and considered way.

Matthias Knab

Globally many investors complain that too much money is chasing too few opportunities in venture capital and also in private equity. So is the demand-supply more balanced here in the Gulf, are there real and solid opportunities for investors to participate via VC?



Dr. Ryan Lemand: Absolutely, and you can also see this in some of the crowd-funding platforms. It's still embryonic, but if you follow it, there are some really interesting opportunities there.

Finally, Expo 2020, the bet of H.H. Sheikh Mohammed, the Prime Minister and Ruler of Dubai, is a technology bet, is it not? He wants to bet on FinTech, on Dubai as a sort of technology hub. Also ADGM, Abu Dhabi Global Markets, is creating a Fintech Initiative and then DDIC doing the same. So all of these are going to emerge in the next two or three years.

And I think technology is really a sector to bet in because the world is transforming. I started my career as a credit default swap, a CDS trader, in the late '90s. With a CDS you can go long fixed income risk without buying a bond, as the credit default swap is sort of an insurance on the bonds. I first started trading it before getting into market making.

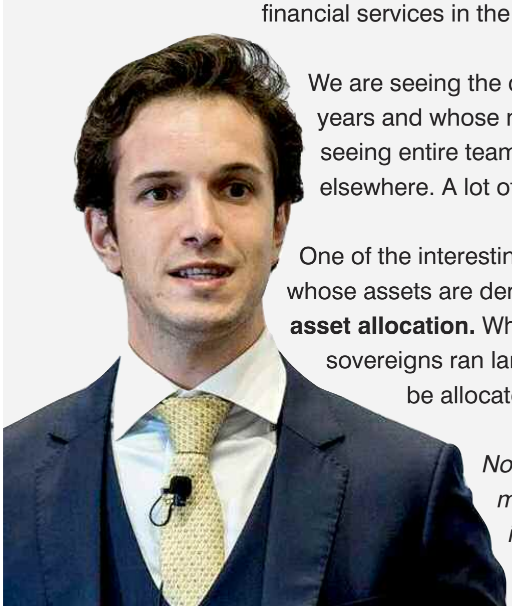
In 2016 I was in France during the summer time and I went to London where I also saw some of my former colleagues and discovered that what I used to do in late '90s and early 2000s is today being done by a computer. The world has evolved massively – things like trend flowing, high-frequency trading, etc., is all done by computers.

Today it's really computers facing each other. Will there be risks? Yes, we have had flash crashes and we are going to have similar flash crashes in the future because it's really computers going against each other. That is the downside, but on the other side there are many benefits for the users and consumers of such technology. I personally believe in technology.

Cedric Kohler: On that note, there is one book I would recommend you to read. It's called "From Zero to One" by Peter Thiel, who is now becoming a part of the Trump administration. This is the investor who did PayPal, and was the first external investor in Facebook. He makes a few very interesting points. The one I particularly remember is that to make money in that space, you really need to have *one of these investments which is going to pay for all the others.*

And that investment must not be twice or five times better than the competition, but 10 times better! In essence the odds are so much against you: whatever costs you planned will be double and whatever you planned in terms of your revenues will be halved. And so, unless you've got that *disruptive investment* in the portfolio, your venture allocation will probably not work. I thought that was a very good insight from somebody who's made real investments and actually got richer doing it.

Zachary Cefaratti: As of late, there are a lot of big changes and developments in the region, particularly in financial services and asset management. A lot of it has made its way into the press, but not everything. For example, a very visible deal is the merger of First Gulf Bank and National Bank of Abu Dhabi, but there are many other cases of consolidation and adjustment in financial services in the region.



We are seeing the closure of asset management arms of some firms that have been here for many years and whose names are mainstays of the regional asset management industry. We're also seeing entire teams shift from some of these asset managers to go independent or to move elsewhere. A lot of regional talent is becoming available on market which speaks for itself.

One of the interesting phenomena that is happening now with some of the large institutional allocators whose assets are derived from petrodollars is an increasing resemblance to the **Endowment Model of asset allocation.** When oil prices were high and expenditures were relatively low, petrodollar derived sovereigns ran large surpluses and injected capital into Sovereign Wealth Funds very regularly to be allocated to various investments, much of which was invested passively.

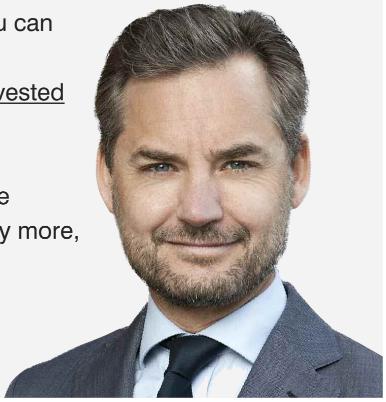
Now that many of these sovereigns are in deficit, the funds have had to become more selective with their investments and target higher returns to preserve intergenerational equity. This means that a higher proportion of the portfolio is allocated to alternative investments such as hedge funds and private equity.

Another major regional event to monitor is the floatation of Saudia Aramco, which will become the world's largest listed company. That floatation will not only provide some form of liquidity to a lot of important principals and royal family members Saudi Arabia, it will also lead to the emergence of the world's largest sovereign wealth fund – the Public Investment Fund of Saudi Arabia, which is expected to absorb a large amount of the liquidity becomes available as part of this IPO.

Matthias Knab Let's go back to the educational point because I think this is really one of the key needs and also something that all of you do on a day-to-day basis. What are some of the messages or insights that you want to bring across to your clients from an educational perspective?

Cedric Kohler: One of our key message, as clichéd as it may be, is that **investors should only invest in strategies that *they understand*.** Whether here or back in Switzerland, you find *non-investment professionals on investment committees,* people like doctors or teachers. And every time we propose a strategy, we try to start with relatively simple ones that people can really get a real understanding on. This could be equity long/short for example as opposed to statistical arbitrage or relative value fixed income. The latter can be relatively difficult for people to grasp at first.

In addition, sizing your allocation appropriately is paramount. It's one thing to have someone explain a strategy to you in a meeting room with a PowerPoint presentation, it's another to experience actual investments. So, we recommend to *start small,* even if your goal is to have a much bigger allocation later on, so you can make sure you understand the performance in different market conditions. Making sure you understand the sources of returns for example is crucial. Monitoring is never enough. Being invested is the ultimate test.



Our experience is that these two recommendations (a strategy you understand and appropriate sizing) usually are well appreciated by new investors in hedge funds. Of course, there are many more, but these two are always a good place to start.

Dr. Ryan Lemand: I alluded to this before, but for us an important part of the process is educating investors, specifically regionally, that they need to watch and know the cost of every 1% performance they are making. If someone makes 10% a year or 20% a year, but at what cost(s)? That's extremely important.

And some regional investors miss that point. You may tell them, "This strategy has made 10% last year," and the response is, "Oh no, I have another strategy. It made me 22%." But do they know at what cost? That's a critical part of education.

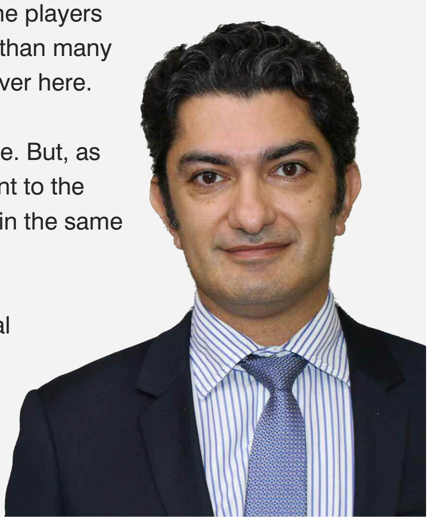
Matthias Knab Could you clarify what type of costs you are suggesting to include when you discuss investments? Things like volatility, draw-downs, what else?

Dr. Ryan Lemand It's a big list. More sophisticated families have also realized the impact of correlation. Specifically, where is your revenue coming from and where do you invest? Do you reinvest where your revenue is coming from or you need to diversify away and invest elsewhere? It's a very tricky decision because sometimes where your revenue is coming from has tremendous opportunities, and so it's very tricky.

Matthias Knab And often a family's economic success is tied to owning one or more businesses, and obviously they understand very well the sector they are coming from...

Dr. Ryan Lemand Exactly.

James Masacorale: This is the dilemma of the local investor. You know the markets and the players here, and so of course, you will understand the equity or the risk over here, perhaps more than many of the managers sitting outside of the region, because you've been born and brought up over here.

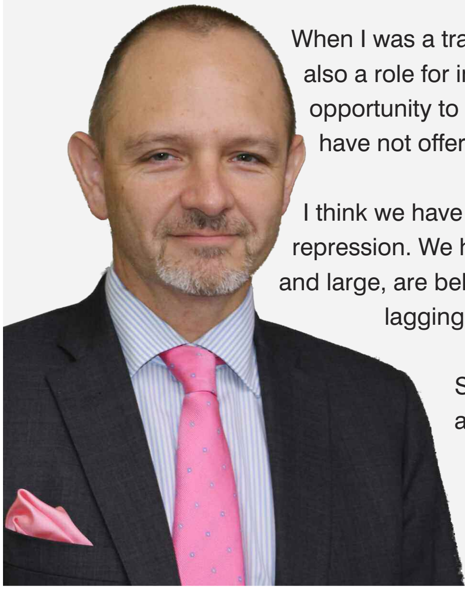


So there is always going to be a large exposure of any local family with a portfolio over here. But, as Dr. Ryan said, people try to diversify by investing across sectors or invest in sectors different to the operational business they are active in, that way they are not doubling up on your risk within the same sectors geography as their operating businesses.

So I think that there has to be more international exposure because any local family or local domicile company is going to have a bias over here. That's never going to go away, the question is just how much of that home bias do you want, how much do you diversify and how much do you keep open?

Matthias Knab Any other final comments?

Nick Allsop: We discussed the increased importance of technology, also in investing. I don't disagree that artificial intelligence is the way forward and that robots have a role to play, but I also maintain that humans have a key role to play, and **discretionary decision making by fund managers** will still be vitally important. And that's exactly what I offer. I'm a fundamentals based manager.



When I was a trader I was also fundamentals based. Charts do have a role but fundamentally there is also a role for individuals to make decisions. I think that's very important. I try to offer investors an opportunity to diversify, not to just invest in equities but to look at other areas that for so many years have not offered good returns. I'm referring here again to interest rates.

I think we have reached a point where rates have bottomed out globally. We've had years of financial repression. We have experienced negative interest rates in the Western World. I believe those days, by and large, are behind us - certainly in the US, and the U.K. possibly as well. Europe is going to be the lagging - that is normally the case.

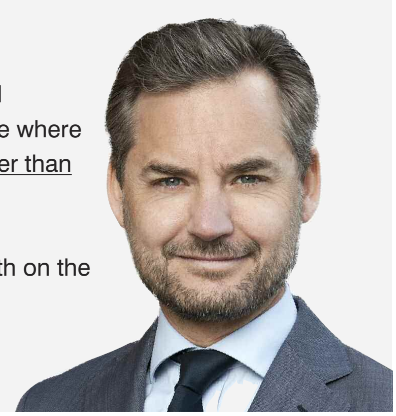
So there are opportunities in the interest rate trading spectrum as well as FX. And as any investor should know, you need to diversify your risk. So of course invest in equities regionally and globally, as we discussed, but investors should look into other areas as well.

Cedric Kohler: There are few principles in Finance that really hold over the long-run, but I know one. If you want to generate returns, you have to take at least one risk. The question is which one and whether you need to learn about that risk. Many investors are now thinking if investing in hedge funds can be a real opportunity again and where they should take risks.

For the hedge fund universe, 2016 was key as it was the first year since the crisis where you had more hedge fund closures than launches, resulting in a net liquidation. This means that there has been a lot of clean up. And not only with small managers. There have been many large managers that are just giving up as well. And for the first time since 2008, about **half of the hedge fund redemptions in 2016 were for managers with more than 5Bn in AuM.** These are big shifts.

In parallel, many sectors have been hit badly in 2016. Take Healthcare for example, the sector experienced severe drawdowns post Hillary's tweet and Trump's ambition to repeal Obamacare. While Trump may succeed on a few healthcare topics, it might be very difficult for him to win against the big Pharmas. They probably have the largest lobby in the US…and it's Republican! So, if you think that the probability is small that a change may occur on drug prices, then you have a very cheap sub-sector (12.5x, 5% div. yield and 5 to 8% growth). This is one example of an interesting opportunity for long / short managers created by last year's dislocations. On the short side, there are also other themes that managers are looking at. Like short brick-and-mortars retailers which do not have a presence online or a too small one.

So the **combination of fewer managers and market dislocations** should provide a better environment for managers. Having said that, there are still a lot of managers out there still and manager selection remains very important. This is even more relevant in the hedge fund space where the dispersion between the best managers and the worst managers is three to five times bigger than the traditional equity or fixed income space.



So overall, we do see an excellent opportunity for hedge fund managers to deliver in 2017 both on the long and on the short side. We have not seen such a good environment since post crisis.

James Masacorale: We talked about different asset classes but haven't mentioned **real estate** yet. There is a liking for real estate in the region from local families; they tend to have their own real estate portfolios. They understand their local market. Many probably construct as well. And I think it's much easier to convince them to go into the same asset class elsewhere, particularly in developed nations. But there's a lot of liquidity chasing the real estate markets in the US, UK, Germany, Switzerland, etc., and so the yields are coming down. But I mean real estate is a sector which is still very important. It's quite easily understood and very popular.

Cedric Kohler Piling up on real estate is actually a global phenomenon. In Switzerland, pension funds are at their limit in terms of real estate exposure. They all love it as there is obviously little mark-to-market and it's something they can see and touch!

Dr. Ryan Lemand: When clients ask for direct investments, we generally suggest the cities where there's no more supply or supply is very, very limited. These are obvious cities to invest. There is value there and it typically always goes up because the supply is so limited.

For clients who are open to funds, there are several very interesting funds. Some of them are in the US and others in Europe, and they offer extremely steady returns like 6% or 6.5%. This is also a nice investment to add to a global portfolio for the families who are interested in real estate. It's a stable and revenue-generating investment, which is very much to their liking.

Harvest is partnering with OpalesqueTV to offer the 'must-have' marketing bundle for hedge fund managers.

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What happened in Week 3?

Hedge fund manager A has produced a custom video with Opalesque.TV and it has been online for a few weeks. As with manager A, we sometimes notice that the weekly views of a video can jump several hundred percent from one week to the other.

Weekly video views	Week 1	Week 2	Week 3
of Manager A:	110	101	376

There are a range of different reasons for such a sudden jump in views, for example manager A could have:

– won a prestigious award or was nominated to it
– been included in some industry ranking
– been written up in the press / hedge fund media
– just launched a new fund that gained a lot of attention
– posted a (very) good month or year
– etc.

It is safe to assume that on any given day, someone or many will google any hedge fund manager's name, fund name, or company name. Good for those who have a custom made, targeted video online that investors can access any time, and at their time.

Unexpected long-term effect

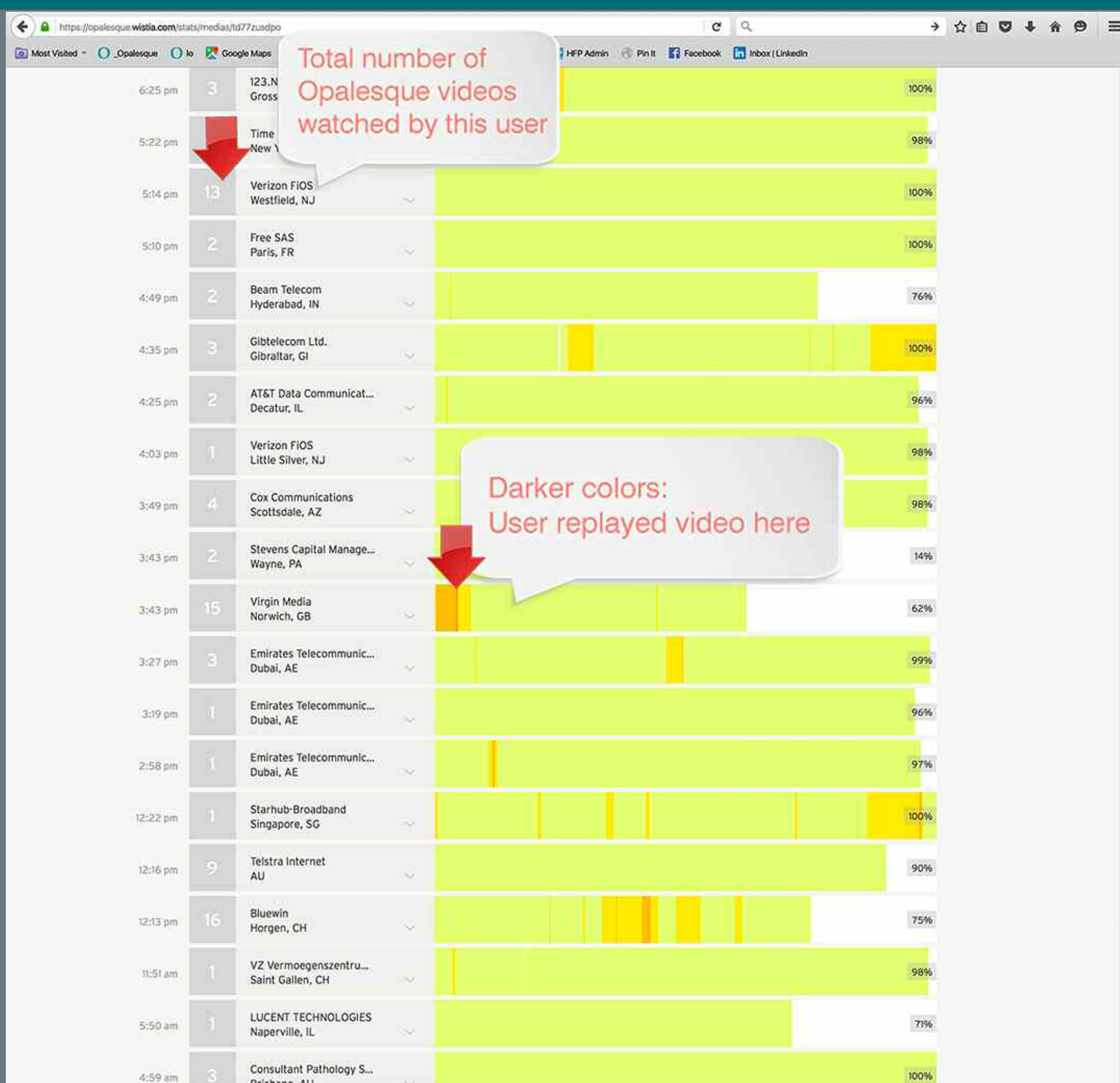
Opalesque has detailed viewer stats on 280+ videos since 2009. What's most interesting is that **video views do not drop significantly over time**, no matter how long the video has been online.

Taking Meetings over Christmas and while you're sleeping

Opalesque.TV videos are designed to simulate a first time meeting with a prospective investor. Many of these allocators will watch a video when they see that there's one available on the manager they are researching (like the viewers of manager A). All 280+ managers who have produced a custom Opalesque.TV video can therefore actually make business (or "have a meeting") while sleeping. Or when it's Christmas.

This video was watched 104 times over the 2016 Christmas holidays:
http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/1

Take a look at the next graphic, especially at the hours (which are Central European), the locations, and the completion (how many viewers watched the video until the end):



We therefore believe there are real **opportunity costs** for managers who do *not* use videos to explain what they do.

Save up to 50% in travel costs by making your first meeting the second one

Have you ever spent time and money to take a trip to present your fund, only to hear, *"Thank you for coming to our office, and please keep sending me your reports ..."?*

What if you had known before that the investor is looking for something else?

By sending their video to prospects **before the meeting,** the manager wins twice. Should the investor be looking for something else, the manager can focus his efforts on those investors who watched the video **and liked** what they saw.

In these cases, managers tell us that the first real meeting becomes more like a 2nd meeting (the 1st one being the video) as the groundwork has been laid and the meeting will be much more successful and achieve much more compared to a regular first meeting. By better **qualifying your leads**, you can basically halve your travel budget and raise more assets quicker.

Compliant

- Opalesque.TV videos are produced to comply with your regulatory requirements
- Allow for true reverse solicitation

You're in control

When you're doing a custom Opalesque.TV video, you have full control about any aspect of your message. This is not a given in any other regular media coverage.

A manager portrait on Opalesque.TV is generally designed to simulate a first time meeting with a prospective investor, meaning that questions like the following will be discussed:

- Please introduce yourself and your firm
- What is special about your strategy?
- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

Working with a trusted partner

Over 1.2 million people have watched one or more Opalesque.TV videos, which means that the people you may be targeting will already be familiar with Opalesque.TV videos.

Managers like **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Elena Ambrosiadou, Anthony Scaramucci,** and many others have done Opalesque videos, as well as institutions like **Morgan Stanley, State Street Global Advisors, M&G Investments.**

Broad distribution

You can either produce a private video with us, which will only be hosted on the non-public part of your website, or we can offer you the broadest possible multi-channel distribution on Opalesque.TV and our partners like Reuters and other leading platforms. Contact us to discuss your custom distribution package.

Managers have **quadrupled assets** thanks to our video ($700m to $2.4bn in 1 year) and also received a book contract or **invitation to speak at the World Economic Forum or at TED** through our video:

- View count: Over 1.2 million views (hundreds of thousands of people)
- Thousands of investors will view your presentations
- Longterm effect: views do not drop significantly over time
- Without investing a single additional minute of your time - time required to record a video is approximately 90 minutes.

Costs

For a 10 minute video the all-inclusive package price is US$4000 which includes: travel (Europe and NY tristate), full production at your office, multiple edits (cuts), provision of the final video file, and a global, multi channel distribution package. A 15 minute video is $5000, so $1000 will be billed for each additional 5 minute segment above 10 minutes. The client determines the final length of the video.

Links

Opalesque.TV video which got 104 views over 2016 Christmas:
http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/

Opalesque.TV videos sorted by number of views:
http://www.opalesque.tv/most-viewed-hedge-fund-videos/

Opalesque.TV videos sorted by number of social media shares:
http://www.opalesque.tv/most-shared-hedge-fund-videos/

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