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Nordic Insights

2014 – A Good Time For Hedge Funds?

Editors **Note**

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We were delighted when Amundi Asset Management invited us to co-organize a round table discussion among distinguished representatives of the Nordic hedge fund industry to discuss the current state and environment for hedge funds, with a special emphasis on the Nordic region.

In the current environment where recovery is there but still fragile and interest rates are on a rising trend, investors are looking for yields. Hedge funds so far in 2014 largely struggle to deliver performance and meet investors.
The hedge fund industry in summer saw significant regulatory changes, notably with the end of the AIFMD transition period for European hedge fund participants on July 22. The race of performance will begin on July 22 with the end of the AIFMD transition period for European hedge fund participants.

But which of the two main regimes for European hedge funds will win the race for performance. Alternative market participants will have to choose their team and their bid: UCITS or AIFM. And the impact of regulatory changes will not end here.

Next to other interesting topics we discussed the role of managed futures in portfolios, the impact of fees, criteria for hedge fund selection, asset allocation strategies, and how managed accounts and bespoke solutions are changing the industry.

We are pleased to present you an excerpt of the session in this paper. The format chosen to compose this summary intends to let the reader participate as close as possible and “listen in” to the discussion among industry professionals in their own words.

Enjoy getting some “Nordic Insights” to the Nordic hedge fund universe in 2014.

Kamran Ghalitschi
Publisher HedgeNordic.com

- This round table discussion took place in Stockholm in May 2014 -

Round **Table** – Participants

François **Bocqueraz** – Global Head of Fund Manager Relations & Selection

François Bocqueraz is a Managing Director and the head of manager selection and hedge fund due diligence at Amundi Alternative Investments. He is responsible for all aspects of fund selection and investment/operational due diligence. He was appointed in his current role in the summer of 2010 following the business combination of Amundi Alternative Investments' fund of hedge funds with Amundi Investment Solutions' alternative managed account platform.

Since then François has been a member of the firm's Executive Committee, the chairman of its Selection committee and a member of its Investment Committee and Risk Committee. In September 2005 François joined Amundi Investment Solutions as a founding member of its alternative managed account platform team starting as a Senior Analyst based in Paris. In June 2007 he moved to New York City and became the global head of fund selection for the firm. Prior to joining Amundi, François spent four years as a financial engineer in Alternative Investments for Lyxor Asset Management in Paris. When he left Lyxor in the summer of 2005, he was the Head of Long/Short Equity & Event Driven, overseeing more than 85 hedge funds with assets under management worth USD 8 billion. François began his career in the Corporate & Investment Banking Division of the Société Générale Group. There he started as an Associate in Equity Capital Markets focusing on equity origination for German small & midcaps in the bank's Frankfurt office.

Hans-Olov **Bornemann** – Head of SEB's Global Quant Team, Senior Portfolio Manager

Hans-Olov Bornemann is the Head of SEB's Global Quant Team which he founded in October 2003. Bornemann is also the Portfolio Manager of the successful SEB Asset Selection fund, the oldest UCITS-compliant Managed Futures / CTA funds (launched in Oct 2006).

The fund and the investment team have repeatedly received awards and short listings in international hedge fund magazines. With more than USD 1 billion in AUM, SEB Asset Selection belongs to the largest CTAs in the world and is a constituent of major CTA-indices, e.g. NewEdge's CTA Index, Barclay Top50 Index etc. Prior to joining SEB in 2003, Bornemann was Managing Director and head of Deutsche Bank's Nordic Equities Business. Leading to up to that, he had a career as a top-ranked equity analyst at Deutsche Bank and S.G. Warburg (part of UBS today) and also head of Nordic equity research. Hans-Olov carries an MBA from Stockholm School of Economics and Business Administration, including an exchange year at Darden Graduate School of Business Administration, University of Virginia, USA.

Florence **Remy-Brunelle** – Business Development Manager

Florence Remy-Brunelle is a Business Development Manager at Amundi Alternative Investments, covering the French, UK, Nordics and American markets. Florence has specialized in hedge funds for the past 15 years. With the company since July 2010, Florence was previously at Amundi Investment Solutions, acting as Product Specialist on the Managed Account Platform since 2005. She joined the Crédit Agricole Group, in its hedge funds subsidiary, Equalt Alternative Investments, in 2001 as International Manager in charge of investors.

Prior to Equalt, she was Head of Marketing and Communication at AIG International Asset Management/DKR Capital in Stamford, CT. She was also Marketing and Communication Manager in the Investment and Trust division of Wells Fargo & Co in Denver, Colorado. Florence Remy-Brunelle carries an MBA from University of Colorado at Denver, and is a graduate from Ecole Supérieure de Commerce with a specialization in finance in France.

André **Havas** – Asset Management Expert, Movestic Kapitalförvaltning

André Havas works as an asset management expert at Movestic Kapitalförvaltning, the asset management arm of Movestic Livförsäkring AB. Prior to joining Movestic André was Head of Investor Relations for a Swedish FOHF manager. André also spent 5 years in senior positions on the sales, marketing and product development side in London with some of the most renowned alternatives firms globally.

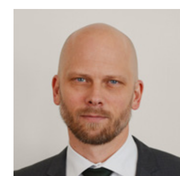
André has advised and dealt with some of the most sophisticated and professional buyers of alternative asset management services in Europe across a variety of strategies and management styles. André speaks four European languages fluently and holds an academic degree in business law and Italian and French.

Mikael **Kadri** – CIO and The Deputy Executive Director, Monyx Financial Group

Mikael Kadri is the CIO and The Deputy Executive Director at Monyx Financial Group. Kadri is also the Portfolio Manager of Monyx Genesis, an USCITS-compliant systematic global macro fund (launched in Dec 2013).

Prior to joining Monyx in 2011, Kadri has been a senior portfolio manager at Skandia Investment Group (2009-2011), Brummer & Partners (2006-2008) and Carnegie Asset Management (1998-2005). Kadri holds a MSc. from Stockholm School of Economics.

Thomas **Lönnerstam** – Dept. Head of Financial Institutions, Nordea



Currently holding the position as Dept. Head of Financial Institutions SE & Member of CIB SE Management team, Nordea. Prior to that 20 years within the "Markets" area. Mainly at SEB but also a couple of years at Danske Bank Markets as well as Nordea Markets. Main areas has been Fixed Income & Structured Products, including four years focusing on Fund-linked derivatives.

Henric **Malmqvist** – Managing Director, International Asset Management, Stockholm

Henric joined IAM in October 2008 and is Managing Director of the Stockholm office responsible for marketing and sales in the Nordic region. In short, IAM is since 25 years back specialized in hedge fund investments and manage mandates in the hedge fund market ranging from advisory to pure discretionary mandates. In more detail, Henric has over 28 years of investment experience and over ten years of experience in the hedge fund industry.

He previously worked for ABN AMRO Asset Management in Institutional Sales as a Product Specialist in Alternative Products. Prior to this he worked at Banco Fonder/Alfred Berg as a hedge fund managers, and Bank Sarasin & Cie in Zurich as a sales-trader. He has also spent a few years in Zug, Switzerland, as a market maker in derivatives. Henric holds a BA in Business Administration and Economics from the University of Stockholm and holds a Certified Financial Analyst (EFFAS) designation from the Stockholm School of Economics.

Mikael **Spångberg** – Deputy CEO and COO Nektar Asset Management AB

Mikael joined SEB in 2000 as a credit analyst for hedge funds and in 2003 he moved to an analyst/ portfolio manager role at SEB Merchant Banking´s hedge fund seed money and incubation portfolio. In Late 2007 Spångberg built a team responsible for managing several alternative portfolios within SEB Merchant Banking.

In late 2011 Spångberg was promoted to Managing Director and responsible for integrating and heading up the SEB Alterative Solutions Team that also included the SEB wholly owned subsidiary Key Asset Management in London. Mikael Spångberg joined Nektar Asset Management as COO in September 2012 and is Deputy CEO of Nektar Asset Management since August 2013. Mikael Spångberg has a MSc in financial economics from University of Southern Stockholm.

Björn **Wendleby** – Lawyer & Partner, Banking and Finance, Capital Markets - Magnusson Law

Björn Wendleby heads up Magnusson´s finance practice in Sweden. He specializes in exchange and securities law, banking and finance legislation and fund operations. He has significant regulatory experience representing clients in contacts with the Swedish Financial Supervisory Authority. During his career, Björn has held a number of senior legal positions, among others in the Swedish Financial Supervisory Authority, Skandinaviska Enskilda Banken AB (publ) and ABG Sundal Collier AB. Back in 2004 Björn Wendleby was appointed by the Swedish Government to be the Head of the Committee that made proposals on how to implement the Prospectus Directive in Sweden.

Kamran **Ghalitschi** – Publisher HedgeNordic.com

Kamran started his career in 1994 as broker/dealer trading US equities and derivatives in the asset management division of Bank Austria. Kamran was head of marketing and sales for the online brokerage division of Raiffeisen and spent a year as PR consultant servicing financial media as well as foreign investment funds on the Austrian market. In 2004 he joined an Austrian CTA working in several marketing, sales and management positions in Vienna, Frankfurt, Amsterdam and Stockholm.

Kamran then joined an Amsterdam based multi-family office with a focus on fund of hedge funds. He founded Nordic Business Media in January 2011 which publishes HedgeNordic.com, the Nordic Hedge Index and is organizer of the Nordic Hedge Award.

2014 – A Good Time For Hedge Funds?

***Florence Remy-Brunelle:** In this discussion we aim to tackle general questions about the hedge fund industry and go into specifics. The idea is to divide the discussion into four main categories which are hedge funds industry landscape, hedge fund strategies 2014 Outlook, hedge fund selection and regulation (UCITS vs AIFM), debating and sharing your views.*

Hans-Olov Bornemann: The general environment before the financial crisis of 2008 was a very positive one for the hedge fund industry. It was positive not only from a client's perspective, but also from a manager's perspective. At that time, the returns were good and high net worth individuals represented an important client base for hedge funds. However, disappointing performance in 2008 and the phenomenon of gating [redemption requests that were denied due to illiquid positions in the fund] caused high net worth individuals to shy away from hedge funds for a number of years. Pension funds and other institutional investors, however, continued to increase their investments in hedge funds. There has been a clear shift in the client mix. A second observation that can be made is the dis-intermediation and decline of fund of hedge funds.

Their dismal performance in 2008 (-20% on average), their extra layer of fees and - in some cases - inability to spot fraud-cases such as Madoff, prompted institutional investors to invest directly into hedge funds and/or to use the less expensive consultants who entered the market segment. Thirdly, as a consequence of a) the Madoff fraud, b) defaulting counterparties and c) illiquid positions, many investors made due diligence a top priority. Last but not least, the hedge fund industry has become subject to an increasing amount of regulation. Although hedge funds were able to weather the financial turbulence of 2008 in a much better way than the banking sector, politicians still thought it would make sense to introduce more regulation for hedge funds as well. Some of these regulatory changes were justified, but others have unnecessarily raised the costs of running and the cost of investing in hedge funds.

Henric Malmqvist: The increased transparency among managers is, for us, a very positive development. The tipping point was probably the events of 2008. Before this we experienced the black-box attitude among some managers which kept investors badly informed regarding their investments. We have seen a drastic change since 2008 when the so-called closed hedge funds have opened up a much better dialogue with their investors. Increased transparency brings a better reputation to the hedge fund industry as a whole which is a positive development.

François Bocqueraz: As a fund selector I fully agree with the view that hedge funds are now more transparent than they were before the Global Financial Crisis. This is a by-product of increased investor expectations and the institutionalization of the industry. Today, the typical hedge fund investor is more likely to be a sophisticated institution, as intermediaries and private individuals play a lesser role.

In other words, there is a greater concentration of assets and increased professionalization of the end investor base, which both have raised the bar in terms of minimum acceptable standards. In parallel, hedge fund managers are very mindful of building longer term relationships with investors: greater openness in ongoing communications or personalized client interactions have vastly improved our investor experience in recent years.

Mikael Spångberg: I basically agree with everything that has been said, but would like to add one thing. Since 2008, and especially the last few years, the industry as a whole has shown disappointing returns. And of course you can argue and talk about the different factors behind that. You could argue that central banks have manipulated asset prices, etcetera. Whatever the arguments are, I think everybody agrees that it is still a fact that the industry as a whole has been disappointing and it is still a challenge to generate good risk adjusted returns in this environment.

***Florence Remy-Brunelle**: Jumping on what you have just said, do you think investors should still consider hedge funds after having been blamed for pretty much everything in and since 2008?*

Mikael Spångberg: Well, first, it is unfortunate and misguided that some people blamed hedge funds for the financial crisis. Second, investors should choose whether or not to invest in hedge funds depending on their preferences, constraints and what they are able to do with their money. If they are unconstrained and look for good risk-adjusted returns, of course there are many compelling investment opportunities in the hedge fund industry. If you talk about hedge funds as an asset class, not all opportunities are equal. So, either an investor should go directly, or through a good consultant or similar. That is up to the individual investor whether one can afford third party advice. Another question is whether or not one prefers to do the research on their own initiative.

Mikael Kadri: For retail investors, investing in alternatives is more important than ever from a portfolio construction perspective. With interest rates very low there can be only one direction.

François Bocqueraz: Mikael is right. However I think this issue extends beyond retail. Some institutional investors, specifically insurance companies, face a similar challenge with their very large allocations to fixed income. Also, for many reasons, the same institutions continue to be naturally constrained in their ability to migrate into other risk assets, including hedge funds. However, there is little doubt as to the future direction of interest rates and credit spreads in the medium term. As a result, there is a much of a need for investments able to act as true diversifiers. Hedge funds may not be the only choice available, but they remain a powerful tool to supplement traditional multi-asset portfolios, as evidenced by their long term risk/return profile and the flexibility of their underlying investment strategies.

***Florence Remy-Brunelle:** Have you seen specific trends in the hedge fund industry since 2008 in the Nordic region? Are you seeing a different path then elsewhere?*

Thomas Lönnerstam: One trend is that even institutions are investing in fund of funds and hedge funds to greater extent compared to more high net worth individuals or retail investors earlier. The lack of return on fixed-income products and the risk you have to take in the equity markets are actually forcing people into alternatives.

The alternative is to accept the return, even though it is lower than before, it is still a fairly good return compared to the risk you take on in the equity markets. That market is driven by a very, very large supply of cash.

Mikael Kadri: I see quite a big challenge for fund of hedge funds. Eventually it is going to be the same trend as for fund of funds in general, which is decreasing gradually due to cost. And there is another phenomenon coming out and it is passive exposure to alternatives where you have a number of large investment banks launching new products, which are performing quite nicely, with low fees. In essence they are multi-strategy, so they invest in different strategies within alternatives and then you do not need fund of funds.

Henric Malmqvist: I have the impression, when comparing with colleagues in the US, UK and European markets, the Nordic clients have been more responsive to using suppliers in a wider scope, more of an advisory approach. There are different ways of working with the end investor when investing in hedge funds. Many investors in hedge funds encountered several problems in the end of 2008, an experience that later on increased their demands for deeper and more selective analysis to better understand the different managers/funds. Todays' investors, in addition to investing in more standardised FoHF, are also requesting other services like tailor made mandates, access only to manager selection analysis or only operational due diligence analysis, monitoring of invested hedge funds etc. The investor is cherry picking their

required services and the supplier becomes more of a tool for the investor. I believe the Nordic market was early in adopting this approach, but this tendency is also developing in other countries.

***Florence Remy-Brunelle:** Have you seen an increasing role of consultants in the Nordic region?*

Henric Malmqvist: I do not see an increasing role for investment consultants within the hedge fund industry unless they increase their team and skills for doing proper hedge fund analysis. To date I have not seen they have the capacity to make necessary analysis within manager selection or especially operational due diligence.

Mikael Spångberg: We have investors that do investment research themselves and they are very competent, and we have several investors who need and prefer to be advised by professionals. Either they go through a fund of funds, an advisor or a consultant.
The fund of funds business model, as it existed pre-2008, has almost become a dysfunctional business model today due to the double layer of fees, among other problems. Some firms have successfully adapted their business models to offer more advisory-type services. The fact is that some investors want help and some investors have the time and resources to spend investing on their own. But if a client pays for an advisor or a consultant, they have to decide: is it worthwhile? The same question arises when investing directly into equities, for example. Do you invest directly or do you have an excellent stockbroker who can help you pick the right stocks on an ongoing basis? If so, fantastic. If I can find anyone or if anyone can recommend one, I am willing to pay for it but it is hard to find.

***Florence Remy-Brunelle:** Have you noticed an increased demand for managed accounts or a need for bespoke solutions among your clients?*

François Bocqueraz: Yes, definitely. Managed accounts and custom solutions have been gaining momentum in most geographies. There has been growing acceptance of their value, notably at large U.S. or U.K. pension funds. In the past five years those institutions have been directing much larger amounts of capital to bespoke solutions (in essence funds-of-one) and/or managed account platforms. All in all, we should continue to see growth in this area even if it remains a relatively small part of the hedge fund industry. Amundi has used these investment vehicles for many years and they now represent a very significant portion of our assets under management. In our opinion their main benefit is that they bring much flexibility in product design. Specifically, it gives the investor the ability to fine-tune the underlying hedge fund manager's mandate. To add to the point, managed accounts are not just about risk or liquidity management, greater transparency and better governance. Rather, they permit a better alignment of our investment objectives and the key strengths or differentiating factors at selected managers. Diversified hedge fund firms do not always excel in everything they do. In this respect, we see value in emphasizing those select areas or professionals with the most potential through a customized managed account. This being said, some users of managed accounts are primarily interested in transparency and liquidity benefits.

For smaller investors managed accounts may not be the best route and going directly has its own merits. In the end, it comes down to one's own requirements or inclinations: some allocators have a strong preference for commingled hedge fund investments with strictly no third parties involved, others will continue to seek professional advice from consultants and then some opt for the 'full service' or 'protection' combining an independent consultant, a fund of funds manager and managed accounts as underlyings. Of note, hedge fund managers sometimes have no experience in launching parallel funds/managed accounts with an operational framework or investment objectives different than those offered on their flagship product. So, as a third-party managed account platform provider, Amundi can also alleviate the burden of managing the 'parallel' fund. In this capacity, we act as an intermediary and gatekeeper in the structuring and ongoing supervision of the managed account for both the manager and the end investors.

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Björn Wendleby: The first trend in managed accounts I saw was in 2009-2010, when people were asking for them as they were a bit concerned about depository banks for some of the hedge fund managers, so they started out on that direction.

There has been quite a rapid development when it comes to that service as in a support service, or as a complement to the other services. I have seen that coming and I think it will continue to grow. It gives a bit more flexibility to some of the investors.

François Bocqueraz: Historically, managed accounts were primarily used by participants in the U.S. managed futures industry or by European investment banks and insurance companies as a risk mitigation tool in their management of capital protected alternative investment solutions. This was in the days when the hedge fund industry was not much transparent and mostly represented by relatively small, unknown firms. Today, as mentioned before, alternative managed accounts have a much wider audience with some sophisticated pension funds having pushed hard for them as they pledged to increase their allocations in a non-commingled/segregated environment.

***Florence Remy-Brunelle:** We have seen a lot of consolidations among players in the industry. Do you think there is only space for big players or is there still space for small sized managers?*

Henric Malmqvist: I would like to refer back to Mikael's comment. He compared it to the equity market where there are larger and smaller players. I think it is the same in the hedge fund business where today you also have larger and smaller, more specialized, managers. There are naturally certain minimum levels running a hedge fund business, but I do not only see a future for the larger size managers. If you are over that critical mass there is definitely room for smaller managers specializing in certain strategies. Today we see more demand from clients for specialists than generalists.

Thomas Lönnerstam: I think a couple of years ago it was rather expensive to run a small hedge fund. But the new establishing of fund hotels might make it easier to start up and run small operations. That will hopefully be a factor that ensures that we have both big and small companies around.

Mikael Spångberg: I definitely hope so, because personally I think that the barriers to entry have become way too high. In the end, it comes down to the investors. Institutional investors, such as fund of funds or asset managers, require a lot from funds. Perhaps they require too much sometimes. They are the ones who can take the extra risk – if we define investing into a start-up as extra risk, instead of investing into a big established fund. If they get rewarded by taking that extra risk in the sense of higher returns, it should be appealing to end clients. I think that is the main factor it comes down to. In the end, new firms need money. No money, no firm, right?

Hans-Olov Bornemann: It is interesting to note that the financial crisis has prompted an increased degree of specialization in the industry. Take the example of a hedge fund start-up. Today, you can get seed money from pension funds or special seeding funds, you hire a promoter for your alternative investment fund management company or make an agreement to be hosted by one, you buy custody-services from an independent custodian, buy transfer agency services from another provider, fund accounting, compliance, risk control, legal support and distribution services from firms specializing in those areas. Larger providers may offer a bundle of services, smaller providers may offer competitive prices via specialization. Another interesting observation is that the increased specialization also applies to investment manager services. The tight

bonus constraints that have affected the banking industry and the asset management industry are making it more efficient for asset management companies to let their most successful employees establish their own investment management companies and to outsource the running of the relevant hedge funds to the new investment management companies. This way, the asset management firms avoid the need to dramatically raise the fixed salaries of their best hedge fund managers and the successful portfolio managers avoid the tight bonus cap by accepting to take the risks of an equity investor and be paid as shareholder instead of as an employee.

André Havas: I would like to add on to Mikael's comment about the barriers to entry, which seem pretty high nowadays. For many of the players in the market this has become a question of commercial environment. You could be a less skillful manager cropping up from an environment with a high degree of commercial traction or a very potent distribution channel, vis-à-vis, a very talented manager without the financial muscles and backing. Your idea on trading or investments, will just be forgotten and it will never flourish and will never be put to test. What I have seen in the last couple of years, especially in Sweden, a lot of people have tried to mimic two very successful policies, where the one is yours, Hans-Olov and the other Brummers Lynx by basically copying things that you think can be engineered on paper without a pretty high degree of complacency with regards to the real competency, and the real infrastructure, and the real efforts that has to be done in order to make ideas work.

All I have seen lately are trading ideas, which are very, very poor. But they flourish in a very high commercial environment and they attract assets. And you have seen very good trading ideas that never come into flourish because they lack the financial backing. What I would see more of, some of the programs that Mikael was in charge of previously at SEB, more seeding programs where you, as a talented manager, can get some financial backing in order to get you yourself up and running and be allowed some time to trade an investment idea, rather than be put six-feet under straightaway because you do not have all the attributes necessary.

Mikael Kadri: It is getting harder and harder to start hedge funds. Ten years ago, you could start off with a couple of hundred million SEK, and today, you need more than a billion just to break even. Distribution is harder than ever. You have the banks and insurance companies that have begun to insourcing asset management rather than outsourcing asset management.

As a consequence it is more difficult to get assets from their clients. Between 2005 and until 2008, the niche players were taking market share, in the Swedish market, but after the financial crisis in 2009 and onwards, the banks and insurance companies have been taking market.

Björn Wendleby: Many of the guys that I met in 2007 should never have started a fund company. And I meet guys every week that have, as you explained before, a strong trading idea or they have a strong distribution idea, but very seldom both. The processes are longer, they spend more time preparing themselves, but there is still a number of companies coming. The key thing here is seed money, that would definitely make the sector grow. Otherwise, I see the same trend as you are seeing with new companies coming in. But, to be successful, you need to have a three-year period in front of you with seed money to take care of your problems. To sum up, a lot of people started fund management companies without doing their homework and they got punished, and should be punished as well.

François Bocqueraz: Seed money is bound to come back again. I think most market participants underestimate the lack of quality capacity in certain hedge fund strategies. This alone should help the formation of new firms and fuel asset growth at the most promising emerging managers. One can already observe increased seeding and acceleration capital deal activity with prominent investors now ramping up or reactivating their seeding programs.

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Florence Remy-Brunelle: *Could you share your views with us on the current hedge fund market environment, in terms of main drivers and main challenges? What strategies are favored for 2014?*

Hans-Olov Bornemann: Earlier this year, I was participating in another panel discussion arranged by HedgeNordic. The discussion was taking place at a time when the market turned quite pessimistic about hedge fund returns. In spite of the negative market sentiment, however, I kept a very positive view on hedge funds. I think that hedge funds in general and CTA-funds in particular will see a major revival both in terms of performance and in terms of inflows. In the last five years, we have seen a tremendous run for all kinds of risk premium strategies. Equities have been rallying since March 2009, bonds and credit have reached new all-time-high prices and are trading at all-time-low yields. In recent years, it did not matter which securities you bought, because all securities have been generating good returns. All the classical risk premiums have been performing extremely well in this low inflation environment. However, for how long will this best-of-all-worlds scenario continue? - Nobody really knows. But, it is probably fair to say that basically all asset classes find themselves in clear bubble territory. Moreover, one should notice that bubbles may become much larger than most people expect them to become and that they unexpectedly tend to burst and cause painful bear markets.

During roaring bull markets like the current one, people are in love with risky assets and are indiscriminately hunting for higher yields. Capital preservation and hedge funds are out of fashion. However, at some point over the next 6-24 months, I personally think that hedge funds, especially CTAs and global macro, will become very popular again. When the risk-premium-rally comes to an end and you cannot make money by being long traditional securities anymore, where do you think people will invest their money? Some will be happy to invest in negatively yielding short term treasury bills. Others will invest heavily into hedge funds with proven bear market track records. In any case, professional investors may want to prepare themselves for the less enjoyable market phase that will follow the rosy market environment we are currently experiencing.

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Mikael Spångberg: I agree with what Hans-Olov just said. If you have been long risk premiums, you have had a nice run. However, that is explicitly not Nektar's investment strategy. We aim to deliver a return stream truly uncorrelated to traditional assets as well as risk premia and alternative betas.

One reason we think why it has been a very challenging period for us for quite some time now, is related to central banks and their extraordinary monetary policy, including QE and other measurements, have affected financial markets. One can argue that these activities have manipulated asset prices from a fundamental perspective. For example, the fact that risk, in terms of both realized and implied volatility, is priced at very low levels is one effect from these policies. The situation does not appear to be sustainable. It is not hard to argue that several things are bubbling beneath what looks to be a calm surface. Consequently, if you pursue a long volatility biased strategy, you are generally paying a premium for it of some kind, and you run the risk of bleeding until you get it right. At Nektar, we generally have long volatility exposure for several reasons, and in this kind of market it has been tricky.

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Henric Malmqvist: At IAM see the opportunity outlook from the managers themselves as an important input in our overall analysis and asset allocation recommendation. This together with our external and internal micro/macro analysis makes up the whole base for our strategy allocation and recommendation to our clients. At this point we do believe in a very positive opportunity set especially for Event and L/S Equity managers. Also, different Global Macro managers are starting to find the right mix of ideas which will hopefully start to show in their numbers after a few difficult years.

We do see more difficulties for Fixed Income Relative Value and CTA managers, at least in the short term. In addition to this I would also like to highlight the development we have seen among investors' behavior. We have seen the hedge fund investor enhancing their skills in how to use hedge funds or the suppliers of hedge fund services. As one example we are seeing skilled investors using hedge funds as a complement to long only exposures, especially using managers within L/S Equity, L/S Credit and Event strategies. Finally, depending on the regulatory pressure on the European investors and funds, we have seen less of an inflow from European investors into hedge funds in comparison to US investors. This might change over the near future and further drive inflows to hedge funds.

***Florence Remy-Brunelle:** François, we would appreciate if you could lay out Amundi's strategy asset allocation for 2014. Has it changed with the turbulent markets we had in March and April?*

François Bocqueraz: Amundi's strategic asset allocation has been very straightforward in recent years. On the one hand, along with other hedge fund investors with exposure to classic, relatively low beta Long/Short strategies, we have benefited from a 'hedged' exposure to equity and credit risk premiums. We also have had a preference for equities over bonds. This has been remarkably profitable, in particular on the back of a strong U.S. Event Driven bias. On the other hand, as Mikael mentioned, we have witnessed a much tougher environment in Global Macro, that has traditionally formed a reasonably large portion of our multi-manager portfolios. Nevertheless, we are persistent. Our view is that macro investments are to come back in due time and the environment has already improved starting in 2013. Typically, in Global Macro, we have tactically adjusted our Emerging Market investments while favouring FX and Rates

strategies in the second quarter. Concurrently, we are preparing a gradual migration back into less directional funds. Of course, this is easier said than done as there is a supply issue in both quantity and quality in relative value firms. In actual fact, some proven players have exited the space or are currently limited in capacity or closed to new investments altogether.

March and April presented good opportunities to tactically trade around event situations. The flip side is that it also brought unwanted volatility and some losses in equity long-short portfolios in the wake of rapid sector/style rotations. This was a wake-up call for many, but this has had no dramatic or lasting effect to our hedge fund managers' portfolios. When compared with cheaper, primarily beta driven directional exposures, hedge funds must provide the right balance between costs, quality alpha and good risk-adjusted returns. In our view hedge funds will be vindicated as classic risk premiums offer little income and quite simply exhibit much less appealing risk/return profiles. There may well be some pain in traditional portfolios at large institutions before one realizes that hedge funds can do a good job in a more volatile, less predictable rising rate environments.

***Florence Remy-Brunelle:** CTA strategies are quite popular in the Nordic countries although they have been struggling for a while now. Should investors still invest in CTAs? What are the challenges managers are facing running CTA strategies?*

Mikael Spångberg: I do not represent a CTA fund but on a personal level I like the concept. I rather use the term momentum, which is basically the exposure you get from risk and return perspectives. Any CTA program has it pros and cons, but generally, momentum strategies tend to complement both traditional and other hedge fund strategies quite nicely from a diversification perspective, both in normal and especially in distressed markets.

Hans-Olov Bornemann: Personally I think that CTAs are very interesting right now. They have indeed been suffering from flat performance in the last five of years, when government and central bank intervention has caused fairly odd markets with many false reversals and false breakouts. However, over the last 12 months, there has been less interference and CTA-funds have started to perform again. When extended and consistent trends develop – up- or down – CTAs are delivering stellar returns. To me, the year 2014 looks quite similar to 2007. All asset classes are performing well, credit spreads are very low, the VIX-index is at an all-time-low level, investors are overweight risky assets, the sun is shining and the sky is blue. In 2007, the mood was equally good and basically nobody was able to foresee what was about to happen or to re-position his/her portfolio ahead of the perfect storm of 2008. Will it be different this time around?

The high market valuations, the high indebtedness of states and individuals, the political shift towards nationalist parties as well as the negative development in international politics make up a pretty dangerous mix in my view. We recommend investors to reconsider their portfolio allocation and bring in more investments that can help protect the downside risks. CTA-funds delivered +25% in 2008 and should do quite well in any upcoming bear market as well. CTAs are probably the most systematic and consistent investors in the world. Their mathematical models try to identify and take advantage of trends that develop in different asset classes. The models have been created in such a way that the portfolio composition dynamically adjusts itself to the current market environment. When markets are trending upwards, they take long positions. When markets are trending downwards, they take short positions. They do not bother about longer term fundamental forecasting. They just follow the markets wherever they are going. This kind of model specification gives CTAs a positive correlation to volatility and the unique feature of being a tail-risk hedge, i.e. an investment that does well during bear markets. The CTA strategy is quite similar to the strategy of simultaneously buying a call option and buying a put option. However, continuously buying options would be too expensive a strategy over time. CTA-managers' ability to forecast the direction

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of markets helps to reduce this cost and over time generate the attractive asymmetric return profile with positive returns over time. At the beginning of 2014, CTA-funds were the largest hedge fund sector with USD 330 billion or 13% of hedge fund assets total. I would not be surprised if the unique return characteristics of CTAs will help the sector to double in size to about 25% over the next 2-3 years. The more extreme the equity- bond- and credit-bubbles become, the greater the potential for CTAs to make money when the bubbles start to deflate.

André Havas: I completely agree with Hans-Olov. One thing that I like with CTAs is that they are very sincere in the aspect of what is working and what does not work. Reading Hans-Olov's monthlies, which I view on a regular basis, he is very sincere in what is working and what is not working. So it is to me as an investor to make an assessment on how I will size my portfolio, as opposed a long-only equity managers, where every stock works all the time even if they do not work. CTAs are very transparent, certainly with the serious CTAs. I think it is a great way for you as an investor, if you have the skill and audacity and capacity to make the right allocation calls in to and out of CTA. From an investor point of view, you could basically try to time CTAs as well, because everything has been put on paper. Maybe it is a backup, but then again, it is more transparent than anything else.

François Bocqueraz: In spite of continued underperformance at many CTA firms, we remain an investor in the strategy. We stick to the view that managed futures have a place in diversified hedge fund portfolios. Also I must say I am somewhat sceptical with regard to the ability of investors to time entry/exit points in the strategy. The way we coped with a challenging environment for momentum strategies is twofold: we increased the proportion of managers exhibiting shorter timeframes and long-term trend followers at the expense of medium term trading programs. For many managers FX and Commodities have contributed negatively. This came at a wrong time with higher correlations between medium to long term CTAs and other strategies in our portfolios. The resulting material reduction in CTAs' diversification benefits could be easily explained by the manager's relatively large equity exposures.

Kamran Ghalitschi: *You mentioned you are shifting from mid and long-term to short-term managers. Are you also seeing a shift from big cap CTAs to smaller capitalized managers with less AuM?*

François Bocqueraz: There have been a variety of academic and professional work papers written on CTAs with a view to identify and describe their many challenges. Some studies have tried to address the issue of size and whether large or small managers have a greater chance of beating their peers, others have looked at the issue of length of track record, number of researchers or other common-sense indicators. From some select research, it seems that neither size, nor scores of PhD researchers really tells you much –if anything- about future outperformance. Typically, Amundi is invested with large and established managers in the space. However when it comes to short-term CTAs, capacity is a critical factor and relatively small size has generally been a competitive advantage. I have not observed any significant shift from large managers to small managers in the industry. Interestingly, it is something that I had looked at quite recently. Admittedly, I would rather say there has been more concentration of assets with the larger firms in recent years.

In the end the beauty of all sorts of algorithmic trading is that there are almost unlimited ways to build or tilt one's risk and return engine or family of models. Therefore I remain optimistic new entrants stand a chance. I am hopeful in that we should continue to see emerging managers with performing new products as market conditions continue to evolve and push the boundaries of quantitative trading. So, to come back to the question of size, the choice between small or large, I personally think size should remain largely irrelevant or at least should not become a primary factor in our analyses. I will concede however that many investors think very differently about this.

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Mikael Kadri: I think that as long as the markets continue to be “manipulated” by the central banks, CTAs will continue to struggle.

Florence Remy-Brunelle: *Do you think hedge funds, in general, will do the job and deliver performance for investors this year?*

Mikael Spångberg: Looking at the numbers so far, already well into the year, the industry as a whole is quite disappointing both on an absolute and relative basis.
However, if equity markets start to tremble and the industry as a whole delivers around 5%, then I think people will be satisfied on average. From an investor’s point of view, it naturally depends on if you are running a traditional or absolute return mandate and how you are evaluated.

Mikael Kadri: I am an asset allocator and I am a hedge fund manager. As an allocator, I am happy with 5% performance. I see it as an alternative to fixed income.

Henric Malmqvist: I believe the hedge fund industry as a group will have a problem reaching last year’s performance, especially due to quite a difficult Q1. But within certain strategies we do strongly believe we will see improved performance on last year due to the increased opportunity we see within these strategies. It is as always important to select the right managers with the right skills active in the strategies with the best opportunity set.

Florence Remy-Brunelle: *How do you pick the right hedge fund managers ?*

Hans-Olov Bornemann: It is a challenge. Not too long ago, we published a research report about the fund selection process within the CTA space. We noticed that a number of fund selectors were putting a lot of emphasis on qualitative aspects such as team size and length of experience and less weight on the actual track record. To test the validity of the observed approach, we ran a regression for the 23 largest CTA funds in the world between the size of their research team and the risk-adjusted returns they achieved over the last 7 years. The analysis showed very clearly that there is no correlation whatsoever between the size of the research team and the realized risk-adjusted returns of the CTA-manager, or, between the length of a CTA-manager’s experience and the achieved risk-adjusted returns. In fact, if there is any correlation whatsoever, it is slightly negative! CTA-managers that had run their CTA-fund for 5-10 years did a better job than the managers that had run their CTA-fund for 20+ years.

Our research project came to the conclusion that fund selectors should focus more on the realized track record and try to understand how that track record came about, rather than listening to the well-sounding marketing pitch of the hedge fund manager. Investing is about understanding markets, being able to forecast future price movements and implementing the strategy in a diversified and consistent way. By thoroughly analyzing the track record of a manager, you will discover whether the manager was just lucky or indeed possesses some investing skills that you want to take advantage of.

François Bocqueraz: This should be easy if it were all about team size or past performance! However, as Hans-Olov just suggested it can become quite tricky to choose those factors that drive the identification of the ‘good’ or ‘right’ managers. To begin with, it greatly varies by strategy type. One golden, common factor rule in manager selection is to keep a good balance between a rather structured, iterative selection process and opportunistic investing. From a process standpoint, my analysts’ objective is to flip all stones in the formation of their investment and divestment recommendations. Effective manager selection and monitoring programs are not out of reach for those who systematically seek to max out confidence and prediction power through continuous information channels. To achieve informed decision-making, one needs intensive

research by people with relevant expertise. Therefore, good manager selection is generally costly and lengthy. Managers are vetted based on our confidence in the repeatability and consistency in their investment process. For example we use critical data from historical portfolios of managers to better understand their investment style or biases. Through historical data sets and observations, we evaluate how managers assume, alter or trade around their collection of ideas and positions. After an investment is made and through privileged information, we typically derive various scenarios from our invested managers' current portfolios, estimate the beta of a collection of managers, look for skill and check how the individual managers' sensitivities and exposures complement each other. In other words the evaluation of a manager does not start and end with the detailed review of a firm, team, process and performance. It incorporates a deep-dive -where feasible- into the manager's underlying positioning including through its collection of securities or assets.

Fund selection is about retaining talented money managers. However our analysts remain acutely aware that managers offer exposure to the performance of underlying risk premia, idiosyncratic risks and opportunities brought by individual securities, performance enhancements through market timing as well as compensation/costs associated with leverage and liquidity premia. All of this matters in our assessment and this is where opportunistic investing comes into play.

André Havas: I also like to have a very clear monitoring process going forward. Basically getting the chance to re-evaluate the managers' positioning, the managers' trades and how they behave in various circumstances. Something that is very useful, is to model certain probability bands for certain outcomes in the market, which a manager must state before hand . If they deviate from those bands you can clearly see whether they are in touch with reality or whether reality has caught up with them or they cannot handle reality. The continuous monitoring process is something that many people do forget, especially consultants, because they like to dig into the details and then their job is done.

But they try to avoid the next step in order to re-evaluate and reassess whether what has been said is also executed. And if not executed, one should at least be audacious enough to ask, why things are as they are. Because even if a manager has been in touch and is very much aware of what has worked and has not worked in the past, they also need to be aware of what does not work or works in the present and going forward. So a little bit of forecasting from the manager and putting it into a context of reality and the future is also key in order to make the right assessment and choices.

Thomas Lönnerstam: When choosing managers, it is very important to oversee how they handle their liquidity. Every single bank, every single actor in this industry will have to post more collateral, doing daily business. Liquidity may be an asset class of it is own going forward.

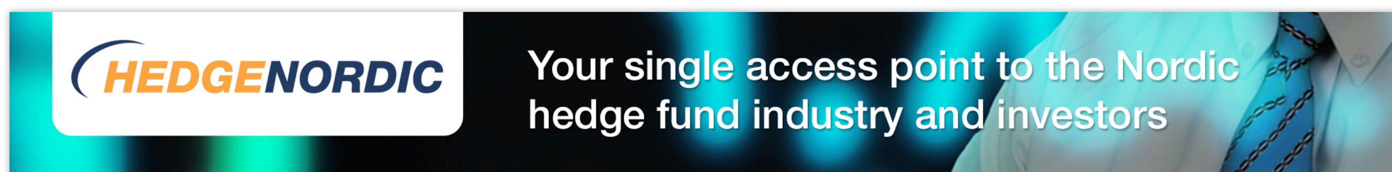
We will demand it in such a great extent in this industry. So, if you have a very good overview and management over your liquidity, you will be in the driver seat. If not, you will probably have problems going forward which can affect your ability to manage in a good way.

Mikael Spångberg: Agreed. Liquidity and collateral management will be more important going forward, and will impact hedge funds' ability to take risk. I interact with banks on a daily basis and what it comes down to is that banks, due to regulation, are forced to de-leverage and re-design investment banking activities. At Nektar we deal with 26 banks on a global basis so we hear and see a lot. We naturally monitor these developments carefully.

***Florence Remy-Brunelle:** There is always a debate between alpha and beta. How much beta should a hedge fund provide? Is this something you look at when you select a hedge fund manager?*

François Bocqueraz: We systematically measure alpha, beta and correlation metrics of our managers. There has always been a debate surrounding the notion of beta and what to do with beta in alternative portfolios. The obvious questions are:

what beta(s) should you use? Should relatively high beta managers be included in your mix of strategies? Should you pay for beta? I personally have no issue with much directional funds provided that selected managers are skilled at adjusting their portfolio (or collection of betas) over time, that is making the most of market fluctuations, proving strong market timing ability and capital protection skills along the way. At Amundi we find it acceptable to pay for beta, but not static, dumb beta with next to no compensation for our capital at risk. So, one should continuously look for hidden, time varying betas and check whether one's managers are willing and nimble enough to reposition their portfolio, specifically in the credit space. The investor's ultimate objective should not be about avoiding beta at all costs but rather about how to measure and optimize the beta(s) of invested managers in the context of his or her overall portfolio construction.



Hans-Olov Bornemann: It is important to realize what kind of fund you are looking at. Is it a fund that has a constant long beta position over time like an equity fund, bond fund or balanced fund, or is it a fund that regularly switches between being long and being short the beta of different markets like a CTA-fund or a global macro fund? Or, is it a fund that is truly beta-neutral, whose performance is totally uncorrelated to the market at all times?

As long as the fund manager has informed clients about any potential beta-tilts that the fund may have over time, then that is fine. Problems arise when a fund is starting to perform in a way that cannot be explained by the strategy that the fund manager has communicated to his/her clients. In the CTA space, two of the larger funds in the world delivered unexpectedly poor performance in 2013 when other CTAs did not suffer as much. From the outside, it looked as if they had included a permanent long position in bonds in their portfolios.

On back of such a suspicion or even discovery, clients had to re-evaluate the managers' previous track records and reconsider their investments. Finally, there is one more thing to keep in mind from a client perspective. There are certain strategies – for example long credit, short volatility or long small-cap stocks – which over periods of 3-5 years may seem to be very low risk, but which all of a sudden take a major dive when the bear market starts. Besides facing an adverse price development, such strategies may also suffer disproportionately much due to their illiquidity risks. In other words, one should not get fooled by apparently low volatility of illiquid strategies.

***Florence Remy-Brunelle:** Should the level of fees charged by the manager be a component of the hedge fund selection?*

Mikael Spångberg: To some extent it depends on who you are, and if you are a constrained or unconstrained investor. If you are a government pension fund that is scrutinised in a public manner, it is obviously a very different situation compared to, for example, a family office that primarily focuses on net returns. Of course, fees can matter a lot.

Kamran Ghalitschi: This spiral we got into of fees going down and down is going to be very hurtful not just to the managers but to the industry as a whole, and it will also hurt the investor at the end. Fees may reach a level making it near impossible starting up for new managers and hard to survive for niche managers with little assets.

The costs of infrastructure, legal fees, the administrative organization, compliance to mention a few are clearly getting a bit out of hand. I am actually concerned about the fee level going down and down.

Mikael Kadri: Sweden is quite unique here because there is no significant fee pressure in the Swedish fund markets. Actually, I went through 100 funds and I looked on an average of the last 10 years and it is actually just barely declining but this has to do due to the fact that a few index funds have been added.

Thomas Lönnerstam: Another reflection on that topic is that if you look at the risk free rates at the time you referred to, 10 years ago and put that in relation to the fees then and now, you get an interesting picture. It looks like fees in relation are actually going up.

Henric Malmqvist: Internationally we see the same thing, fees in general are going down. But the skilled managers are very much in demand and they therefore have no reason to lower their fees. Instead they have problems keeping the funds open and maintaining capacity. For FoHF managers and less skilled managers, fees have been reducing for a few years. A way for less skilled managers, or maybe better expressed, average managers, of attracting assets is to lower fees which has been a fact of late.

IAM has on average 85 managers approved for our clients today and within those managers we have seen little or no change in fees. There has not been any reason to reduce fees over the years due to strong quality in delivering performance.

***Florence Remy-Brunelle:** I suggest maybe we move to the last topic of the conversation, which is regulation. You have all seen that there is an increasing role of regulation for the past few years. Has your way of doing business changed in promoting products, talking with investors or maybe reorganizing your teams?*

Mikael Spångberg: From a business perspective, the workload has been intense. For example, Dodd-Frank is a complicated regulatory framework that we needed to spend a lot of time on to understand, even though we are not defined as a US person under Dodd Frank. Then we have EMIR and AIFMD that we have prepared for. Several aspects are operational issues, such as trade reporting. Other issues, such as clearing, affect our trading. Mandatory clearing of interest rate swaps started in May last year in the US, and it is still somewhat uncertain when it will become mandatory in Europe under EMIR. We started to clear interest rate swaps back in December last year for several reasons in order to learn and be prepared. Depending on who you are and what you trade, the regulatory workload can be quite cumbersome.

Hans-Olov Bornemann: There is clearly more regulation to stay on top of nowadays. As a fund manager, you need to be fully up to speed with all the existing regulations and their most recent interpretations. At SEB we have access to both internal and external experts that can help us in staying up to date with all the new laws. Björn is one of the legal experts and I am sure that he can add some valuable insights into the new regulatory environment.

Björn Wendleby: The struggle for many in the market is often in the organization. There are a lot of things happening you have to deal with. I do not think that there are that many people around that can actually say, "Well, we have this regulation change coming up in six months, so let us start to prepare now." Six months may seem a long time out. But then things tend to take more time than expected, and it will cost more money. I fear that some of the organizations are not prepared for the amount of new rules coming in. You have to think a little bit about how you can set your new routines on new organizations to cope with this because there will be more rules coming in that will need more controls from the authorities,

and there will be more questions from investors, too. We need to really think about that part of the organization as well. And ideally leave the portfolio managers to handle the portfolios. Management, of course, needs to get involved, they need to know the rules and understand them.

But sometimes they spend, as you mentioned, too much time on the legal matters. And I do not think that is a good thing. What you probably need to do is set up an organization that can handle this in separate ways. I know that mangers are still struggling with this. And I think everybody is struggling with all the new rules to some extent, especially the interpretation of the rules. It is costly and it is time consuming to say the least.

Thomas Lönnerstam: You need to be prepare d to change your behavior looking at the Liikanen report and MIFID2, for example. If those two become a reality full out or parts of it, the banks or the market makers might no longer be able to actually carry risk as they have been doing.

There is a risk here that the markets would change to a broker market rather than a market making market. You need to be prepared that what is liquid today might not be that liquid tomorrow. And that will change the game plan for a lot of us.

Mikael Spångberg: Fortunately for us as a hedge fund, we are relatively unconstrained. For us, it also enables new trading opportunities. For example, with a decent balance sheet, we can make money from intermediating risk. However, from a general market perspective, deterring liquidity is a big deal. As an example, in the US, the banking industry's capability to intermediate credit risk has been reduced over the last few years, which has increased the tail risk in the market. If we see a severe credit event combined with shifts in allocations, the risk for a "one way train" is very apparent.

Thomas Lönnerstam: We are not facing disaster. I think it is a new behavior. The markets worked in the '70s, and the '80s, and the '90s. And the market again will find its way to change.

Mikael Spångberg: Different people will struggle more or less. It will also create opportunities and some people will be positioned to take advantage while some will not because of lack of knowledge for example, or their investment mandate. Adaptation is always key.

***Florence Remy-Brunelle:** Today, when opting for regulated products, investors have basically two choices: either a UCIT fund or for an AIF fund. Could you give us an explanation about the differences that lie into these two vehicles? Do they offer the same opportunities and protection to investors?*

Björn Wendleby: Well, these days one wonders. I know after the crisis, a lot of hedge fund managers wanted to start UCITS funds because they were the new thing that they probably could sell at the time. And then, of course, after UCITS IV, you could start 130/30 funds, and you could use different techniques, as using derivatives. In Sweden, you can actually use the technique of short selling in funds because of a misinterpretation when it comes to UCITS funds. To some extent there are possibilities to use UCITS funds using techniques that you use for hedge funds. But having said that, if you go out and market the product, the UCITS fund still has a much better reputation.

It is to some extent also easier to explain to a retail investor. It does not have to be like that. It can be a very complex product. In general, a UCITS product is probably still much, much more a retail product, a mass product than a hedge fund, of course. A lot of our clients now are applying to be an AIF manager, they were fund manag-

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ers before, but they are also planning to start new UCITS funds under their old license. They can be UCITS managers, and they will actually be an AIF manager as well. Also, a lot of discussion is going on with people cooperating, putting together bigger teams, and having different types of products. That is an interesting trend. We will see if there will be more talk, that remains just talk. But I think there will be more mergers, teams moving in together with each other.

***Florence Remy-Brunelle:** Francois, at Amundi, have you made a choice for one vehicle in particular?*

François Bocqueraz: At Amundi, we run two complementary business lines. One is our fund of funds operations, the other is our Ireland-domiciled alternative managed account platform. With the recent introduction of the AIFM Directive, Amundi AI applied early for AIFM status in France, our home jurisdiction and received our AIFM authorisation late last year.

On the fund of hedge funds side, we invest in both UCITS and non-UCITS funds. Indeed the legal wrap for onshore funds is not a determining factor in our selection. Historically we have primarily used non-UCITS funds as they proved better suited to the type of strategies/funds we typically found attractive, but this evolved over time with no strict company policy or constraint in this area.

The primary objective of our third-party-manager platform is to cover all principal hedge fund strategies, including those that are less liquid or more levered. As a result, a UCITS fund wrap would not have worked for us. UCITS rules come with rather stringent constraints and limitations which prevent fund sponsors to package all types of hedge fund strategies in this format. Instead, we have opted for the Irish QIF structure, which brings much more flexibility.

Mikael Kadri: From our perspective managing an alternative strategy, we cannot get sufficient exposure to commodities. Apart from that we see no significant limitation. For example, we cannot create leverage in any other way than through derivatives. But, that is not a significant restriction for us. And it is much easier to market our fund, and it is much easier to come up on different insurance platforms and bank platforms.

But as an asset allocator, I do not see UCITS as necessarily the best thing. Private equity, real estate and commodities are next to impossible to access through UCITS.

Hans-Olov Bornemann: When we launched our SEB Asset Selection fund back in 2006, we were the first in the world to launch a CTA-strategy within the UCITS-framework. At the time, a number of investors were saying "you will be restricted by the UCITS regulation and that will prevent you from generating competitive risk-adjusted returns." With 8 years of track record, we can now show that our UCITS-fund's risk adjusted return is among the top 3 or even top 2 when compared to the risk-adjusted returns of the 23 largest unconstrained CTA-funds globally over the same period. Of course it would be nice to have complete flexibility in terms of what instruments you are allowed to invest in, but what is clearly more important is how good you are at forecasting future price movements. Your forecasting ability is and will remain the key determinant for how successful you are as a fund manager. UCITS-funds offer greater transparency than traditional hedge funds, or AIFs as they are now called, but the AIFs are catching up due to the new regulation. What it comes down to in the end is that you as a client are happy about the transparency that you get from the fund manager, that you have an idea about the process and the product characteristics, that you understand how the track record came about, that you have a good relationship with the fund manager etc. Whether the fund is a UCITS- or non-UCITS is really of secondary importance, unless the client is restricted to only investing in UCITS-funds, of course.

***Florence Remy-Brunelle:** What about the AIFM directive, do you think this directive is going to find some room and be as successful as UCITS have been?*

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Hans-Olov Bornemann: The AIFM directive is a step in the right direction. The new law makes it clear to every fund manager what is required to run an AIF. The law also makes it clear which level of transparency clients can expect from such funds. In some regards, AIFs are actually required to supply more information than normal UCITS funds. After a couple of years, I would not be surprised if AIFs and UCITS were required to disclose an equal amount of information to their clients.

Björn Wendleby: One problem at least in the short term is that if you want to start a UCITS fund or an AIF today, you still have the problem with AIF only being able to be marketed to professionals. There are of course different regimes in different countries. Here in Sweden we have the so-called special funds. You get your fund rules approved by the authority and then you can actually sell it to non-professionals as well. And then we have the third category in AIF that is not a special fund. It cannot be sold to anyone else than professionals. Every country will have its own rules. Some private placement regimes will still be alive, that will be a problem if you want to market your product in four or five countries. You have to spend quite a lot of money on lawyers and advisers just to find out if you can actually sell the product to non professionals in other countries. We will have our own sort of checklists and we will know that. In maybe one or two years everybody will know and be familiar with this. But in the short term that could be at least little bit of a problem.

Hans-Olov Bornemann: Just as a final remark: I think it is important to realize that the popularity of hedge funds is not only dependent on the level of their own returns, but also on the returns of other investments such as equities, bonds and credit-funds. A negative performance development for equities, bonds and credit-funds should rapidly boost the interest for hedge funds again.

Given that basically all traditional asset classes are trading at historically high valuation levels, I think that hedge funds, especially CTAs and global macro, will become very popular again over the next 6-24 months. Therefore, keep a close eye on their performance. You do not want to be left behind when the global investment community rotates out of traditional funds and into hedge funds that can make money when the bubbles start to deflate.

- This round table discussion took place in Stockholm in May 2014 -

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