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PARTICIPANTS:
Brummer & Partners, AIM Capital, Navare Invest, Catella, UBP, Adrigo, Coin Investment Consulting Group, Allocate Management, Peak Asset Management

Investments Are:
Unconstrained
Home Biased
Responsible

How Family Offices
Identify Hedge Funds
Perform Due Diligence
Select & Allocate

Family Offices & Hedge Funds

Topics Discussed:

Home Bias?

Social Responsible Investing

Unconstrained Allocators

Risk / Return Optimization

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Editor´s Note:

It was always my feeling that hedge funds and family offices shared much of the same DNA, with their typical entrepreneur driven, boutique set-up, the desire for absolute returns over beating a benchmark and the dogmatic striving of capital preservation.

Families and wealthy individuals were the initial driving force behind the hedge fund industry. From the days of Alfred Winslow Jones, who started the first hedge fund in 1949, wealthy people, foundations and endowments were the industry's primary investors. It is a fairly recent development that the hedge fund business became institutionalized seemingly existing to exclusively cater to the likes of massive multi-billion Dollar pension funds.

These families are pragmatic, risk averse and long term investors. They take calculated commercial risks in their businesses, sometimes with aggressive and bold moves. Once however the money is outside of the business, and on the family's bank account, the rules of the game seem to change.

While ultimately families are patient investors with investment horizons often spreading across generations, there are flaws with their typical, long-only heavy investments, being at the mercy that markets will go up always and in all periods. Though they have historically over time, they may fail to do so for very long periods. The Nikkei peaked nearly 25 years ago and over that period was down roughly 60%. Another example is the S&P 500 topping out in 2000 and then not reaching a new all-time high for 13 years. Over a five-year bull market, long-only funds may likely outperform. But at least based on history, they have the potential to dramatically underperform over cycles that include bear markets.

There is a clear need for such investors to diversify their portfolios and be less correlated, overall, to equity and fixed income markets. Family offices often have the size, skill and manoeuvrability to identify and allocate to some of the outstanding talent of hedge fund managers out there. The relatively short decision making, sticky money and less fee and liquidity sensitivity make them an interesting target group for managers struggling for big insti-tickets.

But family offices,too, are changing often driven by a hand-over between the generations. There may have been one patriarch who started the business in the old days and generated the initial wealth and calling the shots as long as he could. But as families grow to the second and the third generation, there may be different views among the children, grandchildren and their spouses, and needs for active involvement to be met.

That handover process was also one driver of a big trend in family offices' : a rise in socially responsible, and especially impact investing, intended to both earn a profit and have a positive social or environmental impact. Based on UBS and Campden Research survey data, 61 percent of family offices globally were either actively engaged or planned to be engaged in impact investing. One example, to highlight this is illustrated by the clan whose name has become metaphor for wealth: The Rockefeller family, which built its fortune on the oil industry, recently said it would no longer invest in fossil fuels.

One would like to think these two groups were a match made in heaven in perfect symbiosis.

We gathered some family offices and hedge fund managers to discuss just this.

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The Round Table Discussion took place in
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ROUND TABLE DISCUSSION

FAMILY OFFICES & HEDGE FUNDS

MODERATED BY: JONAS ANDERSSON - CEO OF NAVARE FAMILY OFFICE – STOCKHOLM, DECEMBER 5TH 2017

Jonas Andersson: Let us start by setting the scene with the allocators present. Could you please provide some insight into your client portfolio, and especially your current allocation towards hedge funds. If you don't have any, then please let us know why.

Hans Fredrik Lysén: At the moment, we have 15 percent in hedge funds and we typically allocate between 15 and 25 percent, but it has happened that we allocated up to 40%. Just note that I manage a trend following portfolio and therefore, the trend influences the allocation.

Filip Hansen: We have allocated around 10 percent currently and we are looking to get up to 15-20 instead.

Carl Barnekow: We don't have a model portfolio in that sense, but our clients overall have perhaps 10 percent allocated to the hedge fund space. However, there seems to be a strong demand for alternative investments in general, and perhaps more outside the hedge fund space.

Jonas Andersson: Within our family office, I would say that we are actually very low in the allocation right now. It doesn't mean that we don't like hedge funds, but we just haven't been able to obtain decent returns in general.

> "We have allocated quite a lot to hedge funds in our portfolios, especially in multi-strategy funds."

Mats Planthaber: We have maybe had a different approach because we started looking at a way of de-risking our clients' portfolios. We have allocated quite a lot to hedge funds in our portfolios, especially in multi-strategy funds. We have around 30 to 35 percent. Some clients have up to 50 percent because they see them as a tool for capital preservation and growth over the years.

Jonas Andersson: Mats, a follow-up question: is that allocation driven by your clients? How much of it is due to your own input?

Mats Planthaber: It is about 70/30, and you can guess who is 70 and who is 30. It is a process, when you are sitting with a prospective client, and talk about how his or her total risk looks right now. Then our aim is to mitigate the risk and still have a good average return.

Jonas Andersson: If I then again reach out to allocators and ask: what is the main reason for an allocation to hedge funds? Is the main purpose risk reduction or return enhancement? Is it a way to make more money or to lower your overall portfolio risk?

Hans Fredrik Lysén: I try to find a different type of performance. The answer lies somewhere in between. I am looking for different correlations to the major asset classes. In addition, I don't want anything that does not perform. Then sometimes, I can be too late, when I try to time my allocation to certain strategies.

Jonas Andersson, Navare Invest - Moderator

Göran Tornée: A follow up question for Mats: what do you consider a good return?

Mats Planthaber: We are looking at about four percent, and that's just how we built the portfolio. We are building a fundamental base for the client's portfolio, which will hopefully return about 6 to 9 percent in the best of times. That is what we aim to achieve. That is a good return in our view.

Mikael Spångberg: When you talk about good return, is your definition of a good return dependent upon where we are in the interest-rate cycle? Also, I find it hard to talk about absolute return only in the terms of high or low returns. It's more about the quality of the return with quality being, for example, the achieved diversification effect of adding something to a traditional portfolio composed of mainly equities and bonds. May I be so bold as to ask you that question?

> "I find it hard to talk about absolute return only in the terms of high or low returns. It's more about the quality of the return with quality being, for example, the achieved diversification effect of adding something to a traditional portfolio composed of mainly equities and bonds."

Mats Planthaber: Well of course the quality is itself very important, as we are de-risking our clients and trying to de-risk investments in general. Yes, of course if the interest rate is at the level it is now, it's very hard to achieve the likes of 6 to 9 percent without taking any risk at all. It is about finding those opportunities with other fund managers or with other investment ideas so that we can reach that level.

Jonas Andersson: Filip, perhaps you care to share the reasons for your allocation?

Filip Hansen: The reason is still to achieve some yields in the portfolio, and as Hans-Fredrik said, I'm pretty much looking at the correlation between our properties and equities. In addition, I turn to hedge funds to avoid allocating all to cash to balance the portfolio. I don't want to be long only. Then you need to consider the different kinds of strategies within hedge funds.

Carl Barnekow: On the performance or diversification question, I think I lean more towards the diversification aspect. It depends what kind of hedge funds you invest in, but for instance CTAs can be used for tail-risks,while other funds can be used in different ways. Then, perhaps, for fixed-income replacement, you may choose cash flow driven investments instead, not traditional hedge funds. From our perspective, it is the diversification aspects that count most, but of course they have to provide a certain return.

Jonas Andersson: It seems then, that you, family offices, are mainly in it for the diversification as well as for the risk reduction. If I may ask the managers then: do you think that the family offices, being funded by private individuals rather than large structured institutions, are invested in hedge funds for the right reasons?

Ari Björnsson: Yes, I believe they are. As you have heard here today, people are looking for de-correlation, diversification, and an improved risk-return profile in the portfolios. You need to evaluate what your risk-return is and find the right component that fits with the rest of your assets, and that is what we try to provide.

Mikael Spångberg: May I add some colour to that argument? I just came back from Switzerland where we met many fantastic high-net-worth clients, often family offices. Most of them are very professional, and they invest in our Multi-Strategy fund for apparent reasons. In summary, we help them generate sustainable long-term returns. We offer diversification when traditional equity portfolios suffer. The diversification effect combined with stable returns is our added value to them and what these family offices are searching for. Interestingly, all professional investors are to a certain extent concerned about where we are in the macroeconomic cycle. They worry that equities are at

Göran Tornée, Adrigo

all-time highs and that we are heading for a sharp correction in asset prices. Generally, many investors have been structurally over-weighted in risky assets. Now we are seeing that potential risks are becoming more significant with time, which is why family offices are open to reviewing their asset allocation. Evidently, hedge funds could be a very good risk mitigating tool for them.

Jonas Andersson: Laura, would you think that people are invested for the right reason? Is there something that we as family offices don't see as a very good reason for investing in some alternative strategies?

> "I agree that hedge funds in taking a controlled approach to risk management are beneficial for family office portfolios as well. Especially, looking forward, as we have approached quite high valuations, risk management becomes more and more important."

Laura Wickström: I agree that diversification and compounding of returns is a significant factor for long-term investors. Approaching investing from understanding and controlling risk helps to achieve compounding returns and good hedge funds do that. Generally, hedge funds have a risk budget and they allocate in terms of total risk, as opposed to long-only funds that usually benchmark themselves to the market and don't take a view on their exposure based on total risk. In that sense, I agree that hedge funds in taking a controlled approach to risk management are beneficial for family office portfolios as well.

Especially, looking forward, as we have approached quite high valuations, risk management becomes more and more important. In Finland, we have seen a lot of investors investing in illiquid investments to achieve diversification benefits. I am interested in hearing if at current valuation levels you still see value in illiquid, long-only investments?

Jonas Andersson: Perhaps I could bounce that question to Carl Barnekov. You have been looking at that, I know, both on the long-only illiquid side, but also the hedge funds side.

Carl Barnekow: I see a great interest for illiquid alternatives among our clients, but they are new asset classes and clients don't always have the knowledge and the access to these products. As a consultant firm, we have a big focus on that area. Hedge funds overall have struggled somewhat, as we all know, for a couple of years. I think that may be one reason why many investors have been looking increasingly towards the illiquid side.

Jonas Andersson: Would you say that choosing illiquid, long-only investments is more of a trend everyone chooses to follow, or has it been a rational decision?

Carl Barnekow: I think it is a rational decision and one needs to be cautious.

Hans Fredrik Lysén, Idea Invest

Filip Hansen: Are you talking about illiquid hedge funds?

Laura Wickström: Yes, and what we are analysing is, do private investments, as opposed to public ones, warrant a premium, and is sufficient compensation for illiquidity provided at current market valuations?

Carl Barnekow: There is a lot of talk about illiquidity premium and what you get from that. It isn't always clear what it is worth, if anything at all. The illiquid space is pretty tricky when it comes to analysing returns and how it compares to other returns, as they are not marked-to-market.

Ari Björnsson: There are also questions regarding the definition of illiquid. What is the time frame investors can live with? Is it weekly, monthly, quarterly or five+ years? I have come across investors who have different opinions regarding liquidity. Some are reluctant to be locked in for too long, and feel more comfortable having access to their investment when needed, which might be triggered through structural changes, shift in allocation, or new investment opportunity. What we have done to respond to this need is to have various alternative strategies available in funds with weekly liquidity.

Mikael Wickbom: Aren't investors focusing on illiquid investments in a clear reaction against the fact that everything has become much more synchronized in the listed space in the past few years, especially the raw material prices and oil price? Hence investors are trying to diversify in that sense? We put a lot of effort into searching for anything that could be the re-diversification in the portfolio.

Jonas Andersson: In your view, Mikael, then to your comment above, talking about liquidity, is that something that people get stuck on for the right reason? Is it important after 2008, for instance, to focus on that, or do we focus too much on the liquidity from a hedge fund perspective?

Mikael Wickbom: That probably varies in this room. We have funds that are quoted on a daily basis. For us, it is most important that whatever we hold is very liquid, and also that the clients using or selecting our funds know that we have daily liquidity in our holdings. Then we have colleagues in the industry that operate in a different way, as perhaps they have quarterly trading or even less, and they can hold much more illiquid assets within their portfolio.

Jonas Andersson: Would you say that you're giving away return just to be able to offer daily liquidity? Should the family offices and the investors accept some more illiquidity perhaps monthly or weekly to gain more returns?

Mikael Wickbom: We talk a lot about it, especially when we have been looking at setting up a new fund, and then every time we said: "Well, we need to have at least monthly trading." Actually, quite often, it works pretty well anyway. For us it hasn't been a big problem. Some assets could be very, very difficult to own in a fund like ours, and therefore we have to choose something else.

Carl Barnekow: When it comes to liquidity or illiquidity, people also look at how the return is generated. The optimal source of cash flow is when it is generated elsewhere than in traditional markets. The price to pay for that might be a more illiquid investment.

Laura Wickström: Part of the appeal of private investments is their ability to generate cash flows. As you said, investors prefer those type of income streams. On the other hand, it makes you wonder, going forward, how much investors are willing to pay for those characteristics and if there might be other better opportunities available. We are trying to analyse on a forward-looking basis if there still is a liquidity premium available ex ante in private investments. The question is also how much will the large quantity of capital committed for those investments affect the future returns?

Mikael Spångberg: On the topic of liquidity, may I add a comment directed to the family office representatives? In my view, you are relatively unconstrained investors. You are most likely in a position where you are effectively unconstrained by liquidity which, in some cases, is similar to that of a pension fund. In many cases pension funds use that opportunity to invest in less liquid assets. From your perspective, how do you optimise an unconstrained portfolio so that you can add risk and move upwards on the liquidity or risk premium scale?

Filip Hansen: That is exactly what we try to do, namely getting higher yields when we invest in illiquid assets because we are running a family office for generations. We could almost apply an institutional pension fund view. I am using the Yale model when I am looking at how we will allocate our family office's money over time. I am very much looking for private equity and private real estate. I'm also doing club deals with other families, so to say. I trust that can add a few extra percent a year if I invest in illiquid assets for the family.

Hans Fredrik Lysén: To add to that, with my family we have talked about it and we just turn to equity. Since we are so long term, the only thing we will get performance from is equities.

Filip Hansen: We are looking at equities. If you are in the listed equity area, you can see your investments bump around or you go to a fund manager, who will make it less bumpy to look at. If you look at historic data, they provide better deals for you.

Jonas Andersson: Hans-Fredrik, getting back to you, you said that if you are in it for the 100-year cycle, then it's pure equities. Then do you see hedge fund allocations as a way from time to time to take down the risk?

Hans Fredrik Lysén: That was just a view of how the family was envisaging risk. My view is a bit different regarding how I manage the family's portfolio, so we have very funny discussions from time to time. I think that hedge funds are a natural thing to have.

If you look at time series and perform a back-test and look at historical performance, you can try and devise how would you like to allocate to equities, but it doesn't work like that in all asset classes. You can't do such back-testing in other asset classes because the exposure didn't exist. We have so many more asset classes trade today. I think all alternatives, hedge and commodities, should always be compared to bonds when back-testing long time series. Use the bond asset class performance and have that as a preference for the way to choose from the alternatives.

Göran Tornée: You need to backtrack the equity market over a very long period. In a timeframe of 20 years, markets have performed exceptionally well, and it is unlikely

> It is essential to have a long term investment horizon when investing in equities, as this asset class gives you the best absolute return if your time horizon is long enough.

we will ever experience that again. With extraordinary monetary policies, interest rates have faltered. Just look at the U.S. bond market over the past five years, or the fact that Sweden has negative interest rates today. It is essential to have a long term investment horizon when investing in equities, as this asset class gives you the best absolute return if your time horizon is long enough.

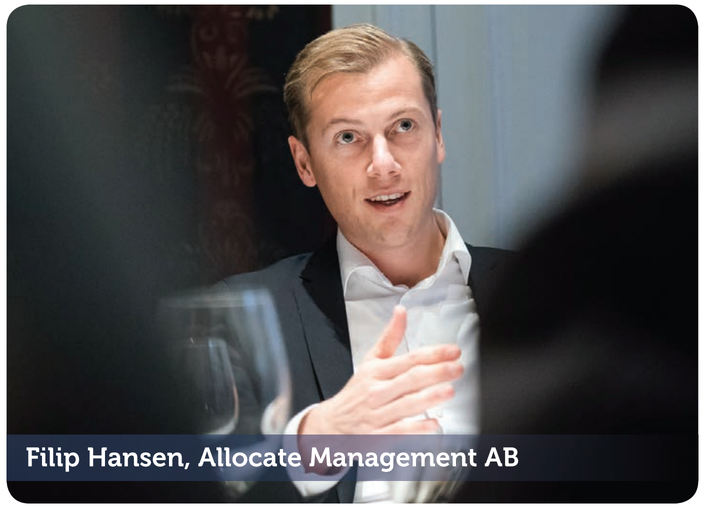
Mikael Spångberg: If I am forced to choose between investing 100 million in the Swedish equity market or with Göran (since I'm biased I can't invest in my own fund!), and my goal is to optimise the risk-adjusted return, I would invest with Göran, because I expect that his risk-adjusted return, over the coming five or ten years, will be superior to that of the Swedish equity market. There are two reasons for this: a) he is a competent investment manager, but also b) where we are in the interest rate cycle, as Göran mentioned, and the fact that we have been in an unprecedented bull market for equities and bonds for the past five years.

Göran Tornée: This issue will not only affect the markets in the short term, and I really appreciate Mikael's words. We have benefitted from an exceptional period, and if we look twenty years ahead, we can hardly expect the average return on equities to remain the same.

Jonas Andersson: In our firm, we very often say that our timeframe for investing is even longer than that of the pension funds because they perhaps on average have 30 years. I would say that we are in it for many, many generations to come, and therefore, as Mikael Spångberg said, it is very interesting to look at the illiquidity premium. Also, as Carl pointed out, you have to look at what you actually get and what kind of premium, and how much do you actually achieve by going for longer term. As Mikael Wickbom also pointed out, the timeframes can differ a lot; one-month lockup is a long time for some, but 10 years is short-term investment for others. Going back to the identification and the due diligence process when looking at hedge funds, if I then turn to my fellow colleagues within the family office allocation side, when you are looking for a new hedge fund, what is the first thing you look for? Is it just the good performance or do you have a thorough process of due diligence? Is there for instance some kind of home bias where you feel more comfortable running over Norrmalmstorg to go up to Mikael and talk to Jan Burén and Spångberg? Or do you try to venture out into new territories?

Mats Planthaber: We are looking especially for standard deviation and Sharpe ratio as one thing that we are very focused on. Then of course we see what kind of fund manager has been there managing the fund for eight months or eight years, and the track record of the fund manager. Of course, we're also looking into his or her holdings to see where he is actually extracting the performance from.

Jonas Andersson: Is AUM an issue or would you consider it a possibility to find a new, emerging manager?


Filip Hansen, Allocate Management AB

Mats Planthaber: It works both ways. For some of our clients who are like pension fund institutions, AUM is an issue. The fund has to be big. They don't want to buy 20 percent of the fund with their own money; they want to represent a little less. For ourselves, if we are discarding that, then it is about track record of course, but it is about past performance. We can't judge on a one-off on the fund's first year. It has to be consistent.

Carl Barnekow: For our clients, there is some sort of home bias that comes from the fact that hedge funds are a little bit like black boxes. As such it is easier and feels safer to select a fund in the Nordic region. For myself, I would say that I try not to focus on the geographical consideration. Instead I look at how a manager runs the product, how it is set up and how well the manager does in bad times. The team and the people behind the fund are of course of most importance.

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Jonas Andersson: Among the clients you help out, is the AUM size an issue? Can you come to them and say: "Hey, here's a guy with only €30 million, but I think it's a great shop"?

Carl Barnekow: Absolutely. It could be a problem, but it depends of course on the client, or more precisely, on the AUM size of the client. Bigger clients need to invest big tickets, otherwise there is too small an impact of the investment on the overall portfolio. On the other hand, they don´t want to own too much of a fund.

Mats Planthaber: Size, and the pedigree of the fund, matter to people. It is so much easier to provide Brummer & Partners instead of an unknown name, of course. It is about recognition.

Ari Björnsson: We have been in this business for a long time. We have 17 people evaluating managers on a day-to-day basis, monitoring about 100 funds we have on our recommendation list. We of course try to spot new investment opportunities, it is not just about looking at the size and past performance, but also about following experienced managers with good track (records), who have started own shops. Their fund is new, but with a hidden interesting track record - something we think is worthwhile to explore. It is not always good to focus only on brand and size, but also to spot new opportunities which arise.

Jonas Andersson: Ari, do you see that as your job, then, to actually take investors by the hand and lead them to the really high-quality managers, those that perhaps don't have a well-recognized name? Is that one of your missions or do you yourself go for the safer bets, too?


Laura Wickström, AIM Capital

Ari Björnsson: Yes, we could. For our advisory and discretionary portfolios, we will have such managers who offer the right component for us to achieve our goals. If it is in the interest of the relevant manager, given that he has passed our due diligence process and is on our approved list, we also promote their strategies to investors across the globe where appropriate. Where possible, we have also replicated offshore hedge fund strategies into UCITS vehicles to make them available to the broader space. That is going well.

If I turn to the managers, do you think that consultants are just more or less a pain or that they actually only pick big-name funds and you are disregarded? Or if you are a big name, do they actually add something? How should the family offices or investors approach the idea of using consultants?

Jonas Andersson: Hans-Fredrik, in your view, what is important when you look at a hedge fund? I don't think that AUM size is a big thing because we talked about that earlier.

Hans Fredrik Lysén: This spring, I had the opportunity to look through 5000+ funds in Bloomberg just to understand the hedge funds and alternatives sector. I ended up with 20 which I thought were interesting. One of those we actually met last week. We were the main investor with €1 million. It is very good to do your due diligence in a proper way. Of course, it's easier to invest in Swedish funds that you could meet. It is very easy to call and meet the person you are investing in, and that of course is an advantage. Also for new managers, it is an advantage from that perspective. I really think it's annoying to run into strategies

Illiquidity Premia

Carl Barnekow

"I see a great interest for illiquid alternatives among our clients, but they are new asset classes and clients don't always have the knowledge and the access to these products."

Hans Fredrik Lysén

"I had the opportunity to look through 5000+ funds in Bloomberg just to understand the hedge funds and alternatives sector. I ended up with 20 which I thought were interesting."

Valuations

Mikael Wickbom

"With equities' high valuations, we may not see high return figures in the next coming years on the equity side in general. This situation may generate more interest for the alternative space in general, as investors look for opportunities to generate return, but also as they seek diversification from equities."

Laura Wickstrom

"Investors are hoping and expecting asset managers to provide investment performance and meaningful investment content, especially in challenging environments. There are a lot of different products offered to investors but maybe less focus on what constitutes a good long-term investment."

Standard Deviation and Sharpe Ratio

Göran Tornée

"There is a big difference between a 2 and a 0.5 Sharpe ratio… and I think many allocators, and not least in the big banks, totally miss out, as they want equity in a static allocation without even defining what they mean."

Mats Planthaber

"We are looking especially for standard deviation and Sharpe ratio as one thing that we are very focused on. Then of course we see what kind of fund manager has been there managing the fund for eight months or eight years, and the track record of the fund manager."

Sustainable Investing & ESG

Ari Björnson

"It's like a wave coming from the north and spreading across the continent. I have even noticed Swedish ESG companies with representatives abroad in various jurisdictions as investor demand for such services is increasing. It is a growing topic indeed, and it is spreading, not just here, but luckily also across the other European countries."

Filip Hansen

"My family really wants to change the world and use their money to do that. As a result, we always look at those questions."

Mikael Spangberg

"We have had to develop tailor-made responsible investment policies for the different funds in the group because as each fund is managed by a separate company, each company has had to define what responsible investment means, both from a fund management company perspective and in terms of their investment strategy".

that are not defined in a proper way. A strategy for the fund is defined. It could be a long/short equity for example. It could be categorised in a lot of different ways, which is very annoying, not least when you have your monthly statement where you think it should be a hedge fund, returns shouldn't be equity like for example. It is not a big issue, but it is annoying. This issue can also affect your search through different channels. It is not easy to find the right fund of course sometimes because it is categorised badly.

Jonas Andersson: Mikael, earlier we touched upon this geographical bias where perhaps a lot of private clients or family offices are more biased towards Scandinavian or Swedish fund managers. On the other side, we have the larger institutions who think it may be more fun to travel to New York or Miami to be courted there. Maybe they are more likely to have the resources to look further and travel overseas. Is there a rationale behind either, say from a risk reduction perspective?

> "By having a good relationship with a hedge fund manager that we invest in chances are we are better positioned to understand what they do, where they will make money or where they take risks. All things being equal, being able to talk to someone over a coffee without having to jump on a plane may have a value."

Mikael Spångberg: That is a long and complex question. Here is my answer. I think that a close relationship is valuable. By having a good relationship with a hedge fund manager that we invest in chances are we are better positioned to understand what they do, where they will make money or where they take risks. All things being equal, being able to talk to someone over a coffee without having to jump on a plane may have a value. I am probably biased on this topic, given who I am, and I can argue that there should be a value, investing with Göran, or me or someone else here, but in the end, it is about relationship and trust. Trust is essential, and in order to build trust there must be some kind of relationship. That was my way of answering your question.

Carl Barnekow: Well you could divide it up as well and compare small boutiques to bigger asset managers. To generalize, bigger institutions tend to look more towards the small boutiques, which they believe have better capability to create alpha. Smaller institutions often want more brand recognition and there is a risk that they end up with an asset gathering type of firms.

Brummer is quite interesting, for example. It is a quite big firm, of course, but it manages small boutiques. You must have done some thinking regarding that aspect I guess.

Mikael Spångberg: Yes, you are correct. Was that a specific question?

Carl Barnekow: No, but it is interesting to see from the outside how you managed to build up a large firm but keep the small boutique felling with totally different teams that, most of the time, outperform.

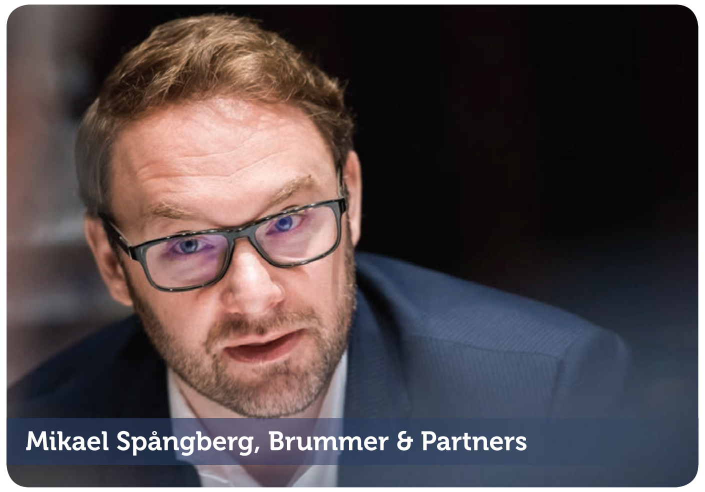
Mikael Spångberg: Yes, it's is about flexibility. As a partner, we offer an opportunity for diverse types of managers. We are looking for portfolio managers that are good at managing money and generating risk-adjusted returns, and hopefully, the components of the returns will add value to the Multi-Strategy fund as well, especially if we are talking about a new team, for example if we want to add a diversifying element that complements the funds we already have. That is our starting point. Then, when it comes to the individual manager, if he or she wants to manage money in a humble fashion, without any publicity or with a lack of desire for building a large investment firm, that is fine. A couple of our hedge funds manage practically only manage our clients' money as the allocation from Brummer Multi-Strategy is the large majority of their total AUM. A few other hedge funds in the group, such as Nektar, Lynx and Manticore, have built successful and impressive standalone businesses with more than USD 1bn in AuM, which is a milestone in this industry. What is important is that the fund's characteristics in terms of, for example, correlation with our other hedge funds, makes us believe it will contribute to BMS's long term risk-adjusted returns. So to us, flexibility is key.

Jonas Andersson: We talked a bit earlier about the family offices being unconstrained and not restricted by harsh internal rules. Should family office take the opportunity to be bolder and actually jump into the more newly started shops and smaller shops and to take the opportunity to find emerging managers? Laura, do you have any thoughts on that?

Laura Wickström: Definitely, we try to find good investment opportunities, and we haven't constrained ourselves in terms of either brand names or size. I think that both approaches have their merits, whether you invest in a large brand name or in smaller opportunities. I think with smaller managers, interest alignment and the fact that managers have significantly invested their own capital are factors that are positive from the investor's perspective. With the large brand name, you may usually find robust infrastructure and corporate governance. We are invested in small funds, as well as in blue-chip funds. Due diligence is important in both cases. Regardless if whether is a large blue-chip name or a small fund, we always perform due diligence analysis. There may be different angles depending on what we are focusing on in the due diligence, but due diligence is always an integral part of the selection process.

Jonas Andersson: Mikael, before lunch we talked about some institutions being perhaps stuck with equities and fixed income sometimes. As you pointed out, you want to propose your main fund, Catella Hedgefond, as an alternative to fixed income. Would you say that family offices should take the opportunity to think broader in terms of catching the opportunity of returns instead of just looking at the hedge fund, fixed income or equities in terms of how much return we can actually get from this risk bucket?

Mikael Wickbom: One of the advantages of being a family office is that you are unconstrained, that you can add to your view and allocate in a clear sense. I find that a lot of institutions, especially on the fixed income side, are too stuck and that they cannot have underlying holdings in anything above investment grade, etcetera. We have an alternative fixed income fund, and then the Catella Hedge Hund is also an alternative for a fixed income investment. Catella hedge fund is a low volatility fund that contains both fixed income and equities, where the fund was started as an alternative to traditional fixed income asset management for institutions. I think that we heard in the figures here that the amount these family offices holds in hedge funds is far higher than what is normal for institutional investors.



Mikael Spångberg, Brummer & Partners

Jonas Andersson: Do you think it that there are too many discussions about buckets? Do you believe we should think about risk budgets instead, as mentioned by Laura?

> This situation may generate more interest for the alternative space in general, as investors look for opportunities to generate return, but also as they seek diversification from equities.

Mikael Wickbom: You will see a shift in the market towards risk budgets. Interest rates are rising and traditional portfolio management where you had equity and bonds in your portfolio is going to be challenging. Now with equities' high valuations, we may not see high return figures in the next coming years on the equity side in general. This situation may generate more interest for the alternative space in general, as investors look for opportunities to generate return, but also as they seek diversification from equities. If you look historically at fixed income, you can see that it has been used as an alternative when equities are not performing. If rates are starting to rise, perhaps it will not be the default allocation in the portfolio anymore for some years ahead.

Göran: Now we discussed alternatives, we discussed hedge funds, and hedge fund is a stupid word because it includes everything. You leave the traditional allocation to equities and you then add some percent in alternatives. It's not a good way of dividing that cake because you need to look at risk adjusted returns. Where do you want to be with a 10 to 40 percent allocation to alternatives? You could have a volatility of 25%, or 2%. Risk level must be a very important part of the decision for a good allocation of 10% within alternatives. Still, wherever you would like to be on the risk curve, the risk-adjusted return must be good. As you have said before, there is a big difference between a 2 and a 0.5 Sharpe ratio. That's a general question, and I think many allocators, and not least in the big banks, totally miss out, as they want equity in a static allocation without even defining what they mean.

Filip Hansen: Sometimes we take a volatile hedge fund if it doesn't correlate with other assets in the portfolio, then it actually could fit in as a really good pie chart in the portfolio. One such fund here in Stockholm is IPM. They have high volatility and they charge for it, but they have no correlation to other assets. Over time, they perform really well. That could be one type of hedge fund you could add as a complement to your equities, or as a replacement because you have the equity fluctuations, but it still affects your performance over time even if it sometimes it is bad. In my point of view, that is a family office hedge fund, that you could always have in the allocation. Then you need to have more liquid assets as well as the cash positions. We are also looking for newly established boutiques where old fund managers go because they have their own track record.

You don't pay that much and could also get reduced fees if you invest with them when they start. They have the track record. You should also keep in mind, if you are looking at the Nordic area, that you don't want to be too big as an asset manager if you are invested in Nordic stocks and Nordic bonds. To avoid this, I have looked to invest in new boutiques and actually look more outside the Nordic area when I allocate my hedge funds. Someone mentioned it here before - the bond market in the Nordic area is overpriced, so I prefer international bonds as a portfolio foundation. I think that is a big risk for the Nordic hedge funds because they use the bonds as the safer asset in their portfolios. We don't have that many fixed income hedge funds in the Nordic area either, so that is a good allocation to add it in the portfolios.

Mikael Wickbom, Catella

Jonas Andersson: Getting back to the manager selection question for family offices: Many big institutions very often go to consultants. Should family offices use consultants or should they use multi-managers like AIM and also, you could say, Brummer & Partners? Is there value in consultants or is there a risk when using consultants because they also take a risk when they deliver advice?

Carl Barnekow: I have been on both sides. More or less everyone has limited resources. So, the question is - how do you allocate the few resources you have most effectively? Into asset allocation, which makes a huge impact on the overall performance of the portfolio, or into for instant manager selection to populate the different pie´s in the portfolio. The latter doesn't generally have that big impact on the overall performance, but it is a highly demanding and time-consuming occupation. My answer is: you could do it all by yourself if you have time to do it properly. Most don´t, and then it could be wise and efficient to outsource some duties to a consultant firm.

> The question is - how do you allocate the few resources you have most effectively? Into asset allocation, which makes a huge impact on the overall performance of the portfolio, or into for instant manager selection to populate the different pie´s in the portfolio.

Jonas Andersson: If I turn to the managers, do you think that consultants are just more or less a pain in the arse or that they actually only pick big-name funds and you are disregarded? Or if you are a big name, do they actually add something? How should the family offices or investors approach the idea of using consultants?

Göran Tornée: Being a small mid-sized hedge fund, we discussed before the big names in terms of pension funds. There can be various reasons for the outcome: it could be that we are, as we said, a SEK 3 billion fund, which may be big enough for some pension fund to invest in, or it could be that consultants have a preference for bigger names for various reasons. But, being in a small mid-sized hedge fund, we definitely have come out very well with pension funds, the bigger names. Why? Maybe size. I don't know.

Ari Björnsson: It will often depend on manpower which translates into time and capacity of what consultants can allow themselves to cover at which price. You can seek advice from a consultant or respectively go for advisory service from houses who manage money themselves in this space. We actually sit on both sides of the table, providing consultants access to approved single strategies and offering advisory service in the hedge fund space, thus engaging with investors, consultants and managers of all kinds. Regardless of how you choose to do it, at the end of the day, it comes with a price. Like Göran said before, you can take all the time you need to explore , screen, meet and visit managers, and conduct both manager and operational due diligence. The alternative is to delegate the work, pay for advice and profit from competence and years of experience. Everyone needs to evaluate for themselves the cost of their own time spent on picking and monitoring managers. I know how I would do it; at the end of the day, it is all a matter of time and time is money.

Laura Wickström: Let me add from the portfolio manager perspective. When I talked about due diligence, I mentioned that interest alignment is quite important. From our perspective, the same standards that we set for funds that we choose to invest in apply to us as well. AIM Capital is an entrepreneur-driven company owned by its employees. As we manage portfolios for our investors, we are accountable for the investment decisions we make and that contributes to the alignment of interests between us and our investors.

Jonas Andersson: Staying with you Laura, then, and turning it more into an international outlook on others family offices abroad: although Finland is always regarded in Sweden like the little brother, you do have a lot of big families. Do you have any experience on how the larger Finnish families are working with alternatives and how they conduct their selection?

Laura Wickström: As I said, our investor base is mainly composed of pension funds and other institutional investors, so we don't have that much of a family office investor base from Finland currently. I was curious about the influence the sponsor organisation has in the investment strategy of a family office. Pension funds are regulated and have investment restrictions derived from regulation. On the other hand, family offices are not regulated, but might have restrictions or requirements coming from the family. How much does that influence the investment objectives and the way that capital is being managed in family offices?

Jonas Andersson: I can forward that immediately to Filip. For instance, when you're talking to your family, is there a preference or something that you definitely are not allowed or not supposed to do?

Filip Hansen: Yes, we are really looking at socio-investing, so to say. We don't invest in betting companies like Betsson in Sweden, and typically non-ethical companies. That's a big no. My family really wants to change the world and use their money to do that. As a result, we always look at those questions.

Jonas Andersson: Hans-Fredrik, do you see any bias? Do you have a tech bias? Or any restriction or preferences in your investment guidelines?

Hans Fredrik Lysén: No, not really. We could invest in anything.

Jonas Andersson: You're unconstrained. Mats, do you feel that there is some influence from your clients that you are more prone to, or do you try to get them to think more rationally?

Mats Planthaber: I hope that I can do the latter, yes. There are some clients who definitely do not want to be invest in weapons or polluting industries or betting, like the company you mentioned. Of course, it is very serious for us, and then we have to listen to them and take precautions and adjust our goals on that.

Jonas Andersson: Filip, you mentioned your SRI and ESG angles. Do you feel that that is becoming more important especially if we look at families?

Mats Planthaber: It is something on the agenda, for sure. It is going to stay there and I think it is going to be more and more important to be more clearly green, and there are other aspects. Socioeconomics is of course important as well.

Göran Tornée: It is absolutely becoming more relevant, and I will give you two reasons. The first is that change is one of our most important investment themes. This is a really big change and it can actually make money or lose money, but that is on the investment side. Secondly, SRI has snowballed, and it is still rolling. I think three years ago hedge funds came with the responsible policy. Maybe it is not known elsewhere, but we have it here. We don't have any exposure, neither of the long or short side, in the obvious offending sectors. The last sector we excluded was alcohol. We did that on behalf of one of our biggest clients, who thought that breweries were not okay. It is absolutely growing.

Mikael Spångberg: Responsible investment is a very important question for Brummer & Partners, and for our clients who invest in our funds. We started our responsible investment journey a few years back and began by defining what we could do in this area, how we should act as investors and how we could be good corporate citizens, without giving up returns or affecting the quality of the returns. We then became a signatory to the PRI. We have had to develop tailor-made responsible investment policies for the different funds in the group because as each fund is managed by a separate company, each company has had to define what responsible investment means, both from a fund management company perspective and in terms of their investment strategy. It is not a very difficult exercise when it comes down to specific equities and you can decide, for example, that guns or gambling equities are off limits.

In my previous role however, when I was deputy CEO for Nektar, a fixed income relative value macro fund, it was not all that easy to define how we could invest responsibly given our investment strategy and investment organisation. We started a bottom-up process where we first defined what responsible investment meant to Nektar, and then how we could invest responsibly given our investment strategy. In addition, Brummer & Partners also strive to be good corporate citizens and want to support certain community projects. For example, we have decided to sponsor a few projects related to mathematics in an effort to increase young Swedes' interest in and knowledge of mathematics, as well as funding a research project at the Royal Institute of Technology related to the analysis of complex data. You could argue that this is in our self-interest because we, as a firm, are dependent on mathematicians and that is true, there are several motives at play, but giving back to the community is important and something that we will continue to do.

Mikael Wickbom: At Catella we see something very similar. The demand is definitely coming from the client side and it is pushing us. On the long side, we set up ESG funds. On the equity side, we are trying to find stocks that have as a business idea to benefit from ESG factors. The whole idea with these companies is that they should perform better long term. We also avoid a lot of things, among which fossil fuels and other factors in the community side. We will let this spread to the other funds, and we have a huge discussion on how to implement it on the hedge fund side because there is a stand on both sides, especially in the Nordic long/short equity fund. We have not implemented that fully yet, but it is gradually getting more and more into the alternative asset management.

Hans Fredrik Lysén: With us, while the family is thinking about ESG a lot, it does not translate into any investment objective yet.

Mikael Wickbom: I would like to add something, since I work a lot with these questions. There is a problem in that many mix up ESG and ethical questions. Both the buy-side and the asset managers should think over what is the most important part of it and determine whether it is both, or not. Because I see more and more that people mix the ethical part into the ESG questions and put limits sometimes due to ethical reasons rather than ESG reasons.

Jonas Andersson: Looking at it from a more pan-European perspective, as you are based in Switzerland, do you see this as a big trend among your international clients among family offices?

Ari Björnsson: It's like a wave coming from the north and spreading across the continent. I have even noticed Swedish ESG companies with representatives abroad in various jurisdictions as investor demand for such services is increasing. It is a growing topic indeed, and it is spreading, not just here, but luckily also across the other European countries.

Jonas Andersson: Getting back to the structure and the process within family offices, since you have more of an international outlook, Mikael, you mentioned that you have visited Switzerland and have a lot of family offices as clients there. Since Switzerland has a long tradition with these family offices, both single and multi-family offices, is there anything that we can learn from them and how they have been acting regarding hedge funds? In Sweden, it is an emerging market, so to say. What do they do differently from what you see here in the Nordics, if there are any major differences?

Mikael Spångberg: That is a very good question, to which it is certainly not easy to give a short answer. Last week, I met with seven family offices. They are all quite significant in size, meaning multi-billion dollars or well beyond $10 billion in assets. For me, it's an interesting client group as they are often very professional and unconstrained which makes the discussion more interesting. They usually start by defining, as I described a few minutes ago, their investment objective. They want to achieve a return at an acceptable level of risk defined as a VaR number or volatility and/or drawdown for example. It is a very competent group of investors, and they are important not only because they are sizable but also because they see things differently and they share their views with us, which results in interesting discussions. They pick up things, and perhaps because they are so unconstrained, they view the market differently than a traditional pension fund does. For us, meeting with family offices often offers valuable insights. Then, of course, their purpose is to generate returns for their families and they are certainly very diligent.

Jonas Andersson: In that sense, perhaps they are more rational actually than the institutional clients.

Mikael Spångberg: Absolutely. I was very naïve many years ago, and I thought that private banking clients were not a very interesting group of clients to speak to because I was mainly focused on institutions. Then I met a few private banking clients, sometimes together with you Jonas, and I was quite surprised to find out that "Gosh, this guy really knows what he's talking about!" That is perhaps not always the case with institutions like insurance companies and pension funds.

Jonas Andersson: Ari, from your perspective, are there major aspects that you see that we could learn from? We, representing the family offices here, what could we learn from the shops you see, perhaps larger family offices with a long heritage? Anything in particular?

Ari Björnsson: Sure, but it's rather difficult to provide one answer, because at the end of the day, as many as the Family Offices are, they all may have their own differences and their own needs and therefore they will allocate in their own way. That is the same here in Sweden as well as elsewhere. In terms of learning, many things for sure can be learned, but I don't want be the one to tell you what to learn. My best advice would be to learn from each other, seek the contacts with your counterparts, domestically and abroad.

Jonas Andersson: Thank you for that. One final question, as time is running out. Time goes fast when you are having fun! Do you – managers - feel that you can provide the right service level to family offices and if so, is there a difference in the requests from family offices or wealthy private individuals compared to institutional clients, for instance?

Göran Tornée: Regardless of the clients, they will want you to be available and I hope all of our clients feel that we are available. Then we might not be able to visit everyone every month, but I hope the family offices feel that we are available, and we definitely want to be.

Jonas Andersson: So, availability. If I turn to my fellow colleagues within family offices, do you feel that availability is an important thing and do you feel that you get the right service level?

Mats Planthaber: It is of course important to have availability and it is a privilege if you get to extract information directly from the source. That is very important for us because we follow the managers from fund A to fund B and when they start new companies. We like to keep the availability and keep the contact, so yes.

Laura Wickström: If I may comment on the Finnish side, the feedback that we get from institutional investors is that the current environment with relatively high valuations and entering the late stage of the cycle is quite challenging. Investors are hoping and expecting asset managers to provide investment performance and meaningful investment content, especially in challenging environments. There are a lot of different products offered to investors but maybe less focus on what constitutes a good long-term investment.

We see demand for diversifying investments with good long-term return potential. We understand that many hedge funds are not able to deliver that. We focus on identifying those managers and funds that offer something unique and, in addition, offer it responsibly. The bar is continuously being set a little bit higher, at least for asset managers in Finland.

Mikael Spångberg: I am going to Finland on Thursday, and have been in Finland many times throughout the years because we are fortunate to have good relations with our clients there, institutions and family offices. Perhaps I can share an interesting anecdote. I always read up and prepare well when I go to Finland because Finnish investors are, on average, more demanding. They require substance and hence, we have to prepare way more in advance of meeting them because they will ask you all the tricky questions.

Jonas Andersson: Perhaps, we, as family offices, should learn more from the Finnish family offices than from Switzerland.

Mikael Spångberg: They are both very important.

Jonas Andersson: Just very shortly, Carl, what do you want from a service level when you are invested in a fund? What is it that is important for you?

Carl Barnekow: Especially perhaps in the hedge fund space, compared to long-only managers, it is important to have transparency and access to the managers who could explain the performance and other factors. And usually you get that, so I don't see it as a big problem.

Mats Planthaber: I come from another point of view here, but I think the financial journalists in Sweden at least are not so well educated regarding the diversity of hedge funds. It doesn't matter what paper you read, but I think the hedge fund industry has a job to do educating the Swedish media at least. I think Swedish journalists take it much too lightly when they are writing about hedge fund as just hedge funds. They are comparing hedge fund A to B to C without considering risks or any other differences.

Göran Tornée: I'm from Sweden; we have tried and we try every single time.

Mikael Spångberg: It is very tricky because even if you try to say something very polite or unbiased, you always get accused of being biased even when you are balanced.

Jonas Andersson: I think that's actually a perfect closing remark to wrap up. Thank you all for a very good discussion.

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