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Editor's Note

The credit crisis changed many things in the behavior of finance. For example, the capital asset pricing model (CAPM) is now in question, together with many other things and theories that we learned when we went to school. 2018 was then the inflection point where Fed Put function of QE came to an end, and since then we have been moving to a different playbook. These changes have become very visible in the returns that we are seeing.

Meanwhile, investment professionals and investors are wondering if it is still possible to run a successful hedge fund today based on pure fundamental techniques? We do know that investment companies are changing their processes and their set up. Many don't even define themselves as investment but technology companies dedicated to investing as their business. We also see a different talent and human resource pool in those firms versus the traditional investment houses. *BlackRock now has a higher percentage of technologists than JPMorgan, and this says a lot about the future of the money-management. It's Ph.Ds. and coders over CFAs.*

Algorithms are in the end the result of the evolution of technology applied to the financial world. That evolution triggered the appearance of tools and solutions that are able to analyze information much faster, with more reliability – therefore enabling much faster trading decisions. The key result is that much better informed decisions can be taken often within the scope of just a microsecond – hence out of the perception realm of a human being. ***Algorithms today simultaneously trade multiple asset classes and are able to rebalance, back test and reinvest the investor's entire portfolio in real time.*** *Surprisingly enough, Asia – not the US - seems to be a main driving area for the automation of investment solutions (page 17-19).*

The 2019 Opalesque Miami Roundtable, sponsored by Miami Downtown Development Authority, had the following participants:

1. Alberto Pagan-Matos, CFA, Managing Director, Glovista Investments
2. Antonio Goncalves, Director, Miami Exchange (MIAX)
3. Cliff Oberlin, Founder & CEO, Oberlin Wealth Partners
4. David Coggins, CEO & Managing Member, Coral Gables Asset Management
5. George Askew, Founder & CEO Rule Capital Management
6. Jeffrey Racenstein, HSD Holdings

The group also discussed:

- Can you run a fund that exploits inefficiencies caused by stock market regulation? (page 8, 14, 22)

- Why many of the (very) wealthy families are happy to be on the bottom part of the investing pyramid (page 9). How the uber-wealthy are dealing with the current markets (page 13). Do bonds belong in portfolios today? Two ways to reduce volatility in a portfolio (page 14)

- Are financial markets trusting or starting to not trust President Trump? What are the parallels between the 1960s and today? (page 9-10)

- How to return double digit numbers to investors using Natural Language Processing and Machine Learning (page 10-11). Should hedge fund managers still read 10-Ks? (page 19)

- What's the true impact of the trade war for the US? (page 9-12). The promise of augmented and virtual reality (page 22)

- The capacity trap: The trajectory from emerging hedge fund manager to billionaire converting to family office (page 11, 15, 19)

- Why is the Miami Options Exchange, one of the most advanced and innovative technology companies in the financial industry and the 18th largest exchange in the world by trading volumes, located in Miami? Why locals are "hugely bullish" on Miami as a financial hub (page 20-22)

- Why a 25% allocation to alternatives will be the new normal. Red flags in PE (page 23-24)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT):

David Coggins, Cliff Oberlin, George Askew, Antonio Goncalves, Alberto Pagan-Matos, Jeffrey Racenstein

Introduction

David Coggins
Coral Gables Asset Management

My name is David Coggins. I'm the CEO and managing member of Coral Gables Asset Management. CGAM is a quantitative long/short market neutral equity strategy that is designed to perform in both favorable and unfavorable market conditions. We employ a systematic investment process that drives optimal trade execution and portfolio construction that is designed to take advantage of cross-section mispricing.

I launched CGAM in August of 2015. My research interests are psychology-based trading strategies, analyst forecasts and return predictability. My professional experience includes trader and equity analyst at Prudential Securities and then moved into portfolio management and wealth management at Wachovia and Wells Fargo before launching my firm.

Cliff Oberlin
Oberlin Wealth Partners

I'm Cliff Oberlin, Founder, CEO of Oberlin Wealth Partners. We are a multi-family office but actually started out as a single family office almost 100 years ago. We have had about 10 operating businesses through that time period. At the moment, I am responsible for two of them. We built one of them into a three time INC 500 company and sold that to a multi-billion dollar publicly traded bank. The next one was founded by me and we built it to 155 offices around the USA with about $50 billion in assets. That firm was #2 on the INC 500 list. We sold that to a multi-billion dollar publicly traded firm, actually the fourth largest brokerage firm in the country.

I then started Oberlin Wealth Partners as a multi-family office and we work with ultra-high-net-worth families around the world, providing a lot of different family office services. I find this work highly enjoyable and gratifying; we work with the human side of the families. Yes, we help them with their investments, but we also help them with everything from family governance to running their family office which is usually a separate entity from any business that these families operate. That is primarily where I spend my time now.

We also own a number of other operating companies that we still operate. One is an investment banking firm which is involved in global infrastructure projects. We also own funeral homes across Ohio and Indiana and a number of other entities as well.

Jeffrey Racenstein
HSD Holdings

I'm Jeff Racenstein. I'm a CIO for a single-family office here in South Florida. My background is originally public accounting, and I'm a CPA, and have my MBA from NYU.

I'm from New York and came down to Florida about 22 years ago when I started to work for a long/short hedge fund in Palm Beach for 15 years. When I joined we managed about $15 million in assets which later peaked at over $500 million. We were fundamentally driven, and had a solid long term track record.

From there, I made some personal investments in smaller entities and became CFO for a staffing company, and from my network was introduced to the gentleman I work for now. He was looking for someone to help him oversee and manage his diverse portfolio. We basically run a portfolio which is not unlike a macro hedge fund. We have investments in several asset classes including: equities, private equity, real estate and fixed income. The owner still managers or oversees multiple operating businesses, as he built the company from scratch. I focus then on the investment side and we work as a team to allocate capital and manage the investments.

Antonio Goncalves
MIAX

My name is Antonio Goncalves. I am Director of Global Alliances and International Clients for the Miami Exchange. I also head up the technology sales efforts for the company.

The Miami Exchange started only five years ago and has been until now focused on the options market, having grown 85% year after year to become one of the largest options exchanges in the country – and the 18th largest exchange in the world by trading volumes.

Until recently we only hosted the trading of equity options, but in 2018, after the strategic acquisition of a Sidney based company called T3, we started trading our own proprietary volatility products. Our flagship product is called Spikes and is a direct competitor to CBOE's VIX. Our third options market – MIAX Emerald – will be launched in February 2019. In only the past two years we managed to seize approx. 11% market share of the US options market, which is a very significant market share in a space that features 16 exchanges. Our plans of expansion for the next two years are also quite exciting – including ICOs and Equities markets.

The exchange has – for the third consecutive year – won the award for the best US exchange infrastructure. We also won awards in the infosec / cybersecurity and the operational risk areas – areas in which we are considered an important use case by regulators and other exchanges.

Prior to joining MIAX I worked for the New York Stock Exchange for 10 years as responsible for Latin America and technology sales efforts worldwide.

Geroge Askew
Rule Capital Management

I'm George Askew, CEO and founder of Rule Capital Management based in Jacksonville, Florida. We are a small hedge fund with the mission to exploit inefficiencies that arise from stock market regulations, so we put on a little bit of a different twist on things.

I have a total of 27 years of experience in Wall Street, five years investment banking at Merrill Lynch, almost eight years on the buy side at Phoenix Investment Partners, and 17 years in Equity Research at Legg Mason and Stifel. The last five years at Stifel, I established and managed the Stifel Research office in Shanghai, China. I moved back here about two years ago and established Rule Capital.

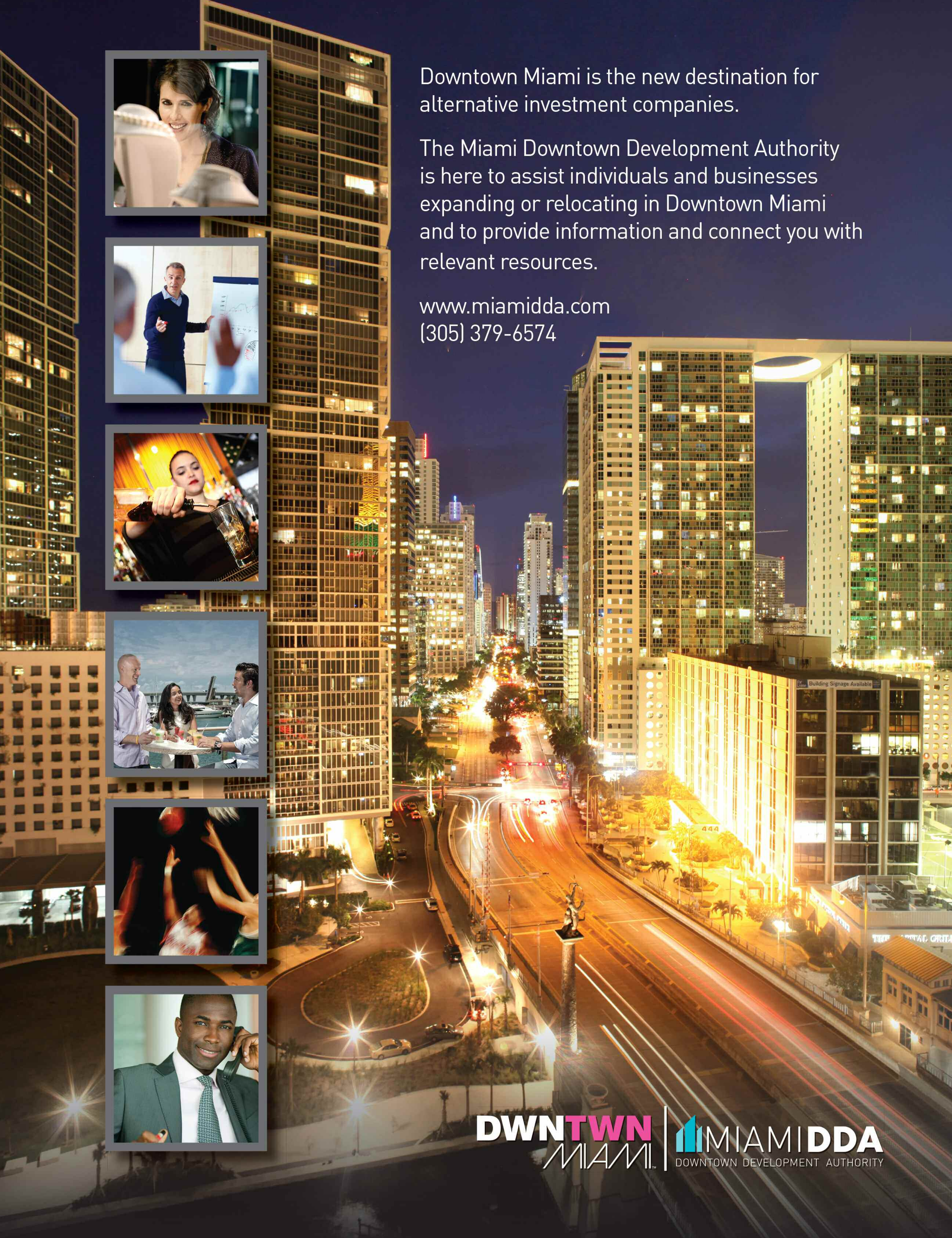
Alberto Pagan-Matos
Glovista Investments

My name is Alberto Pagan from Glovista Investments where I am Managing Director. We are an SEC registered firm in Jersey City, New Jersey with offices in San Mateo, California and Miami.

We launched the firm in 2007 and follow a top-down, global macro focus and strategy, meaning we try to identify the countries and secondly the sectors within that country where we see value. In a third step we then decide whether we should buy equity or fixed income within that country. The end result is a global tactical asset allocation portfolio which some people usually call a balanced or a global macro portfolio – in our own view, we are kind of a combination. The implementation of our strategy is primarily through ETFs.

Our strategy is absolute return, with no leverage, no lock up, so it's very liquid and very transparent given the use of ETFs. The firm was founded by Carlos Asilis who got his Ph.D. in Economics from Chicago in the '80s. Most of our team has a background in finance and economics. After his PhD in Economics, Carlos taught in Georgetown and Stockholm and later worked at the IMF the '90s. He later moved to Wall Street along with many IMF economists like Paolo Leme and Mohamed El-Erian. Back then, a number of IMF economists gravitated to Wall Street, and Carlos was one of them. He led the macro strategy at several firms in Wall Street and also was the global strategist and US strategist for JP Morgan in 2003. In 2007, he decided to launch Glovista Investments.

Our clients are for the most part family offices, foundations and institutions. We actually run several strategies which are based on the same philosophy but for the purpose of this meeting, we will discuss our Global Tactical Asset Allocation (GTAA) which focuses on absolute return and managing risk on the downside. So our alpha generation tends to be really different and uncorrelated to others.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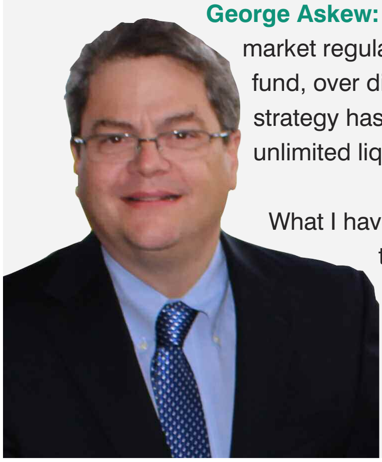
Matthias Knab Maybe some of you had seen some research by Ned Davis Research where they grouped various asset classes into eight big buckets, from bonds to US and international stocks to commodities and finding that not a single one of them was on track to post a return in 2018 of more than 5%, a phenomenon last observed in 1972 when Nixon was president.

Given that backdrop, could you share with us how you are positioned and some of your insights regarding the markets?

Alberto Pagan-Matos: I had actually just read that research. As I mentioned, we try to manage downside volatility, and sometimes we do a very good and sometimes we do less of a good job. *One thing we are very keen to explain to our clients is the extent of how the world changed in 2007. The credit crisis changed many things in the behavior of finance. For example,* ***the capital asset pricing model (CAPM) is now in question,*** *and many other things and theories that we learned when we went to school are now put into question.*

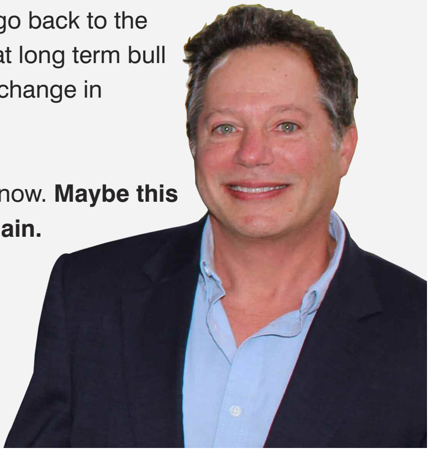
So, it's true that you have to go back to 1972 to get to the point where every major asset class is below 5%. And the reason for that is the unwinding of QE. Most of the current generation of asset managers have seen rates only go one direction, which is down.

We haven't seen a bear market in bonds, and markets have in general enjoyed the proverbial Fed Put. Since 2009, asset prices have broadly gone up, and I think **2018 was the year where the Put function of QE came to an end.** So we have reached an inflection point and are now moving to a different playbook. These changes have become very visible in the returns that we are seeing – negative returns in the bond market, negative returns in equities and international commodities, volatility as well as political risk has gone up. So, those changes translate into high volatility which translates into lower prices in risk assets.



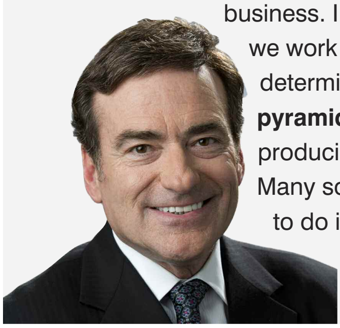
George Askew: I run an event-driven fund with five strategies that try to exploit inefficiencies caused by stock market regulation. As you would imagine, I did a considerable amount of back testing before I launched the fund, over different market environments, and the strategy held up. My challenge is that my highest return strategy has the lowest level of liquidity, and my lowest return strategy, which is still attractive, has unlimited liquidity.

What I have found is that there have been fewer higher return events in the last quarter as the market has tightened up and gotten more volatile. But this will be temporary as it has been in the past. The events and catalysts I trade on stand independent of the market and perform regardless what the market is doing when they're available. I agree with Alberto's comments on the inflection point, we are absolutely in a more selective or transitioning market.



Jeffrey Racenstein: I find it interesting that Davis came out with this information but if we go back to the end of September 2018, the equity markets were at all time highs and have been on a great long term bull run. In my opinion, the markets have been in a steady rise for so long, so I don't know if a change in direction should be that surprising.

The other thing everyone talks about is the rise of passive investing, everyone using ETFs now. **Maybe this volatility is shaking people up a bit and motivates them to look at active managers again.** I was at a wealth conference recently in Palm Beach and as you'd expect, one of the conversations was if this is a good environment for an active manager because if the markets are doing nothing and display all this volatility, maybe you may want to pay for somebody who may be able to outperform that.



Cliff Oberlin: I have been licensed now for over 40 years and my mother, father, grandmother were all in the investment business. I've been around for some cycles and have seen a lot happen in financial markets. Therefore, when we work with wealthy families, the first thing we go through is a process called Riskometry where we determine their risk tolerance. Many of our wealthy families are on the **bottom part of the investing pyramid,** meaning they really don't care if they are ranked as the number one investment return producing family in the world, they just don't like to lose a lot of money. They want to preserve the assets. Many sold their business, so it would be unlikely that they go out and re-earn their fortune. What we tend to do is diversify allocating to different asset managers that we employ many different strategies.

David Coggins: I want to just follow-up on the Ned Davis research. That's not a coincidence as far as Nixon being the last president and where we are today. And it's actually consistent with those industries and sub-industries that were impacted towards the end of the Nixon regime. Those same industries and sub-industries are now being impacted under the Trump regime. Which leads us to believe that what we are experiencing right now in the markets has less to do with the trade issues and more to do with the **financial markets starting to not trust our President** and his thought process, unfortunately-

Matthias Knab You mean the trade war doesn't have any real impact?

David Coggins: *No, most of the trade talk is noise. In addition, we are pretty confident that this current period or the period that we have had up to this point reflects the 1960s. There are many parallels between the 1960s and today. Fiscal policy, monetary policy were both robust, inflation was at the decade low and every macro indicator was going in one direction. Kennedy and Johnson were pushing tax cuts very hard.* ***The indicators during the 1960's and today are pretty much the same.*** *So, we feel that we are in that period and we are starting to see the unfolding of a lot of things we have been concerned with over the last few years.*

Matthias Knab David, your strategy is based on some interesting components such as behavioral finance and data science, can you share with us a bit more details?

David Coggins: Sure, most of our alpha is driven by Natural Language Processing (NLP). **We are extracting signals via NLP and Machine Learning.**

We feel that NLP and Machine Learning can be used to generate highly effective, low turnover and orthogonal stock selection signals. Rather than manually reading and sifting through thousands of annual filings ever day our NLP models give us an edge as we have been able to make more timely and accurate investment decisions.

Jeffrey Racenstein: Could you elaborate again how you see the President affecting the markets, because I am not sure if I am agreeing with you there – I mean as a person he appears volatile and that seems to be refelcted with the recent increase in volatility in the markets.

David Coggins: So, during periods of heightened political awareness **systematic demand shifts** take place causing mispricing and correction patterns. The idea here is seeking to predict the outcome of an election using available data and if we can predict the outcome then we should be able to form a portfolio that includes those industries that are sensitive to the incoming political regime.

Obviously, elections are important and elections with switches in the Presidential party are important as well. You can also think of it as political sentiment based demand where you have the possibility of exploiting such mispricing by optimistic or strategic rebalancing.

Matthias Knab Also, David, I think your signals seem to have worked quite well and your strategy has performed, no?

David Coggins: Correct, we have done well. Both our long and short book have been contributing to our alpha generation. In both 2017 and 2018 we have returned double digit numbers to our investors. We are excited about our continued success with our NLP signals. Being able to cover the full earnings cycle through our NLP signals has really helped our overall portfolio returns.

Matthias Knab As a firm, you have been around now for over four years and your strategy has an attractive track record, so probably now you are getting interest from the larger institutional investors as well. Do you think your strategy has certain capacity constraints?

David Coggins: Right, we are indeed getting a lot of attention and inflows right now from all types of investors, of course also the larger ones.

Capacity is of course a very important consideration. Everyone is making money at a billion AUM, but above, I don't know. We are in the mid cap space, and in studying some of these larger funds that are not generating returns right now or most recently, I think there are many reasons for that, but we feel the main one is size – they are just too big, so we are cognizant of that factor.

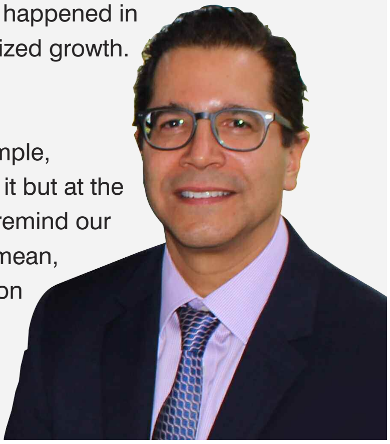
George Askew: David, I think you and I are in agreement in many ways about our President and how he impacts the economy. But I would say this, since he became President he's been volatile and has made a lot of noise on policy issues and often gotten his way like with the tax cut. I see a similar pattern from him with regard to foreign policy, and with his immigration stand and the Border Wall. However so far, his verbose tactics have not really hurt the economy or the markets to the downside.

However, with the China tariff issues, it is affecting the economy and market negatively in my view. A few numbers, the tariffs would affect $500 billion of Chinese imports, so assuming a 25% flat rate the tariffs would be $125 billion or about $100 billion for the companies in the S&P500 Index. The revenue of the S&P500 companies is just over $11 trillion and the operating profit is about $1.2 trillion. As a result the China tariffs of $100 billion represent 8% to operating profits or basically a new 8% tax on companies. That has put fear in the markets with the impact disproportionally on multinational companies and their customers.

Cliff Oberlin: One of the families own manufacturing companies and they export to China. They are going into negotiations and commented they have a good idea who is will be paying the tariffs and they feel strongly that it's not going to be the Chinese – this then would end up, like you are saying, like an additional tax on the US consumer.

Jeffrey Racenstein: I think it was in the Wall Street Journal recently that the trade gap is as wide as it's ever been. Is that front loading with everyone trying to get in front of the tariffs? I guess it seemed so.

Alberto Pagan-Matos: There is a lot talk about Trump and that's something that, although we follow, we don't pay too much attention because we're not in the business of making political outcomes or who's going to win or is he going to be impeached, etc.; but it definitely causes stress, and it definitely causes concern. So, to add into your first questions about asset returns below 5%, maybe Trump could be function of all these, but going back to fundamentals and macroeconomics, which is what we do, we remind our clients and also want to remind this Roundtable that what happened in 2017 was global synchronized growth. So, Trump has been enjoying that globalized synchronized growth. But things have changed, and now we don't have a globalized synchronized growth anymore.



As I mentioned, there's no more Fed Put, and with that, the behavior is now changed. For example, people aren't buying the dips because the Fed Put is gone. Obviously behavior has to do with it but at the end of the day is fundamentals. So, when you look at fundamentals, which is what we do, we remind our clients that, again, 2017 was about globalized synchronized growth. I would agree with Jeff, I mean, I think the market went way up too much. Now things have changed and we have a deceleration and of course everyone is wondering if this deceleration could turn into recession.

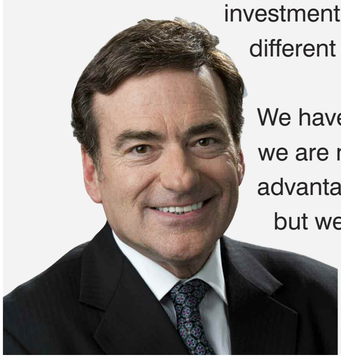
David Coggins: I just want to follow-up on George's comments about the tariffs and their impacts. We did an analysis based on the 25% proposed hike and according to our analysis it would equal roughly about 74 basis points of impact on US GDP. And so, from there, we would add that number to the market and see what would happen to future returns. This impact is important, don't get me wrong, but the industries impacted by such tariffs so far have been industries were the consumer has not felt the pain in their pockets. Clearly the market has picked a clear winner when you bench the US to China and the major indices.

There has been a lot of criticism about hedge funds not performing in the recent past, however, we feel that if you can't perform in the current environment and show your value here, then you don't belong in this business. That's just the bottom line.

George Askew: David, I agree. We've got a $20 trillion economy with a $125 billion impact, so that's 63bps – you said 74bps, so we are more or less in agreement here. The difference though is when you translate it into earnings for the S&P 500, that's where the impact is 8% of operating income! That's what hits the stock market. I agree with you as a percent of GDP, not that big, but as a percent of income for a lot of companies, it's more significant.

Matthias Knab Cliff you said you are focusing a lot on diversification when you work with your families. How do you diversify and have you changed your approach given the current markets?

Cliff Oberlin: We do tend to have a **more cash** in the portfolios compared to a year ago. We believe in cash and in the investment side. And some of our investments are operating companies as well, which are an entirely different breed.

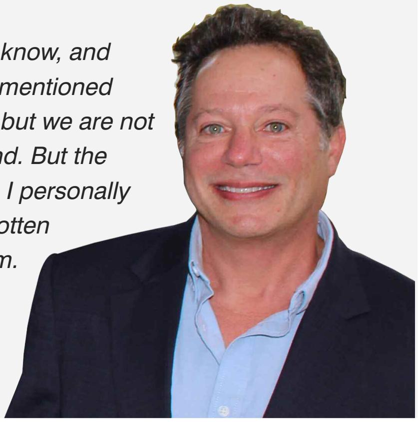


We have become more conservative in our approach, we even tend to use cash rather than the bonds, so we are not that heavy in bonds at this time. Cash is king, and if you have it you can actually take advantage of a lot of other situations when they come around. Of course, we don't know what's ahead, but we want to be prepared. Again, our clients don't expect the highest return, but they also are very conservative and don't want to get the worst return either.

Jeffrey Racenstein: On our side I would say the portfolio is very diversified, we own a lot of different things, and similar to what Cliff said, we are not that uncomfortable with accumulating cash.

We like **real estate** and have been looking at commercial centers to purchase, own and manage. We have an advantage in that we target an asset size that is below most REIT's radar and whereas traditional bank financing maybe a bit more difficult to attain. We are a niche player and we have had good success in buying targeted buildings.

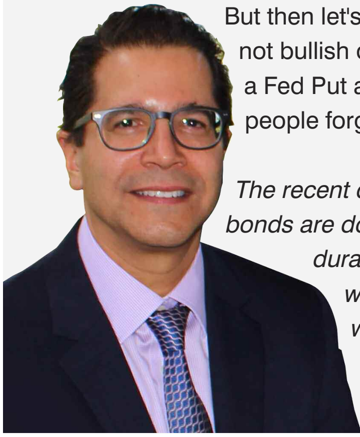
We have also partnered a lot in the LP world, we partner with people who we trust, who we know, and who we like. We also have a portfolio of equities that we own as long term holders. Alberto mentioned noise, and right, there is a lot of noise in the markets when you are looking at it day-to-day, but we are not looking at our returns on a day-to-day basis as I used to when I was working at a hedge fund. But the world I am now in is very different. We have a very long-term focus, it's a different mentality. I personally still follow the markets, and directly manage a piece of the equity portfolio. Also, we have gotten involved in smaller, interesting companies we are investing in and act as a resource for them. The mentality in general is wealth accumulation, not lose it, and not freak out if the market pulls back a bit.



Cliff Oberlin: Jeff brought up the real estate in the US where right now we also have an opportunity with the Qualified Opportunity Zones, and our families are very interested in some of the tax benefits.

Jeffrey Racenstein: We actually own a property in an opportunity zone. So, we are trying to figure out what's the best way to go about it. I don't know if you guys have looked at it in detail, but it's also a very powerful way to defer capital gains.

Alberto Pagan-Matos: I would echo what Jeff and Dave said about cash. We have cash above 10%, however just a few weeks ago it was as high as 25%. So, cash is king, and actually JP Morgan recently came out with a research note early this week that they favor cash over equities – they haven't done that in 10 years or so.



But then let's also speak about short duration bonds. Obviously, we are not bullish on German bonds, we are not bullish on zero-negative rates. But there is **a space for bonds in your portfolio.** In a world that you had a Fed Put and QE, people were just focused on the S&P which was, as Jeff said, going up like crazy, and people forgot that bonds have a place in a portfolio.

The recent days in the market show you quite clearly why you should have bonds. And you also see that bonds are doing what they are supposed to do. Within fixed income you obviously have to be agile about the duration on the front curve, et cetera, and the liquidity. Senior loans really came under pressure. So, we have to be very careful with that asset class on the liquidity to side. From the fundamental side, we like them, but on the liquidity side, you have to be very careful.

George Askew: From a diversification standpoint, today I have nine positions, and my maximum number of stocks is between 18 and 20. So I have identified these catalysts for a stock, which then typically materialize within 30 days or less, and then I'm out of the position. So, there's a lot of turnover, but also, in a world where I'm seeing fewer opportunities especially the high return opportunities like I was talking about before, I sometimes end up with a cash substitute or a market-tracking ETF as well.

Jeffrey Racenstein: I would think that not all investors are happy paying hedge fund fees for cash or ETFs, no?

David Coggins: Of course, our strategy is vastly different from the regulatory catalyst driven strategy that George is employs. Look, one of the only ways to reduce volatility in your portfolio is by adding positions, and if you still can't reduce volatility by adding positions you lower your gross exposure. Investors don't pay us to go to cash or be in ETFs.

Our current portfolio is made up of 183 positions. We have a small tilt towards the short side and we currently have a negative portfolio beta which is probably the way that we want to be right now especially in this environment.

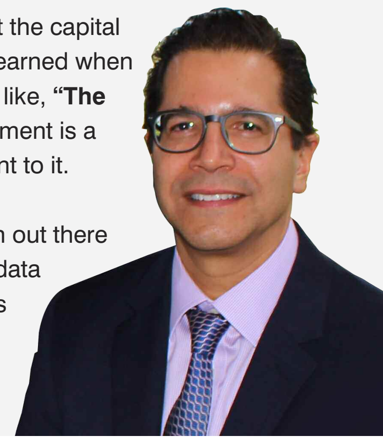
I was at a quant event in New York recently, and I spoke to a lot of people there. Interestingly, the event was attended by long fundamental guys. In speaking with some of them they were looking to start to employ such techniques we are currently using for our investment strategy. We discussed a bit about our positions and stock selection models, but what I am taking away from my conversations with them, is that a client shouldn't be paying management fees to be in Apple, Facebook or Google. They can do such trades themselves. To make it in this space today, you as investment manager need to have a product that is truly a cutting-edge product where you are able to differentiate yourself from the rest of the pack.

Jeffrey Racenstein: But then also, David, when you look at the biggest, most successful hedge funds, those guys also own all those names.

David Coggins: Right, but I would just give them the benefit of the doubt that they also started out differently.

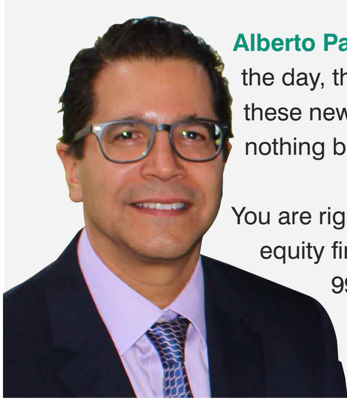
And then, as I mentioned before as well, size becomes a factor. The managers or owners of those mega hedge funds are now billionaires. They are not as aggressive as they once were, that's a factor. Their hands are not in the ingredients anymore, that's another factor. They have senior people under them today, so there are many factors that go into that. These guys are big for a reason. They started out small and proved their worth. They kept their business running and growing, but after a certain point, the set-up, the momentum and the direction changes...

Alberto Pagan-Matos: I want to circle back to some of my earlier comments where I said that the capital asset pricing model (CAPM) is now in question, and many other things and theories that we learned when we went to school are now put into question. On the other hand, there is this saying that runs like, **"The more things change, the more they stay the same."** It is our view that the best risk management is a robust asset allocation, and again, what bonds did in December 2018, up to 2%, is a testament to it.



But, of course, on the surface a lot of things are changing, there is a lot of behavioral research out there that I'm reading which is very interesting. Innovations in data science and AI is offering more data than ever, things like weather data and forecast to GDPNow from the Atlanta Fed which also is very effective.

David Coggins: But they are always wrong, by the way...



Alberto Pagan-Matos: That's true but it is very effective to see what people are thinking, but at the end of the day, they were wrong. But that's also to a certain extent, my point. It's interesting to look at and study all these new methods, but again, the more things change, the more they stay the same. In my view, there's nothing better than a robust asset allocation for investors such as families and foundations.

You are right, David, the owners of the behemoth asset management companies – be it a hedge fund, private equity firm- created wealth by concentrating their effort and money into one single asset. But for the other 99.9% of us, that's not going to be the case. Therefore, nothing beats a robust asset allocation.

Matthias Knab This is a very interesting and important discussion about the fundamentals and the process of investing. Are these things changing, or not? We can certainly see that a lot of investment companies are changing their processes and their set up. Today, many of them define themselves not as investment but technology companies dedicated to investing as their business. We also see a different talent and human resource pool in those firms versus the traditional investment houses.

David Coggins: This is just my opinion, I would find it to be difficult to run a successful hedge fund today based on pure fundamental techniques.

Matthias Knab In your view, what do you think is missing in the fundamental model of running a hedge fund?

David Coggins: I don't see proxy for future returns. We are looking for an economic mechanism that allows us to say within some certainty we are heading in the right direction. And then, equally important, if I'm going to lose money on any specific day, I am able to drill down and tell the client exactly why we lost money.

I think having such an edge is great. I just do. At our firm, we're not looking for CFAs but more for coders and PhDs. We actually just brought on a President and Director of Risk from MIT, to give you an example.

Matthias Knab Antonio, what do you see happening from the exchange perspective?

Antonio Goncalves: I often say the exchange is a bit like a theater – we're not the play, not the actors, not the public… we are the rooftop under which all of those events and players come to meet. Today, that rooftop is a data center, and the stage of the theater is made of very sophisticated technology components – and I'm proud to say that Miami Exchange is one of the most advanced and innovative technology companies in the financial industry.

The consequences of the pivotal role of technology in the financial world are not only dramatic shifts in the profile, activities and investment vehicles of both retail and institutional investors, but also the surge of new and very innovative tools that those investors use in order to decide on their investment strategies. For instance, one of the most important trends we're seeing is the **automation of the classic financial advisory and investment processes.** New trading platforms are being launched driven by the demands of very high-end clients, very wealthy individuals who usually trade very large and diversified portfolios.

We're seeing investors trade multiple asset classes via mobile devices, with real time access to data, ability to retrieve historical data, test their portfolios against it and then – in real time – redesign their investment strategies via pre-programmed algorithms. This is something that in the past only large brokerage houses and proprietary trading firms were able do. Now those very institutional firms are launching new and very creative solutions for the benefit of retail investors, helping them manage an increasingly diversified portfolio with increased sophistication.

Matthias Knab Can you tell us more about those players and their algos?

Antonio Goncalves: *Algorithms are only the result of the evolution of technology applied to the financial world. That evolution triggered the appearance of tools and solutions that are able to analyze information much faster, with more reliability – therefore enabling much faster trading decisions. The key result is that much better informed decisions can be taken often within the scope of just a microsecond – hence out of the perception realm of a human being.*

Across most equities and derivatives exchanges worldwide, and well over a decade now, the most important liquidity providers have been very successfully using trading algorithms usually designed by in-house experts. They are typically co-located in the same data center where the exchanges host their trading computers.

Now we are at point that the know-how created by those top firms is starting to be applied to the creation of algorithmic and data analysis tools that will bring to the retail brokerage and the wealth management spaces – meaning to every day investors around the world – the same kind of fast and more informed decisions in sub second times. ***Algorithms today simultaneously trade multiple asset classes and are able to rebalance, back test and reinvest the retail investor's entire portfolio in real time.***

These automated tools replace tasks which were traditionally done by human interaction – because today they can be done much more effectively by an algorithm.

It is not only the profile of the investor that is changing – but the very way in which investment advisory firm are working. They too are starting to evolve into a highly sophisticated technological profile. In the future, the end services offered to their clients will be eminently based on recommendations made by algorithmic tools. **Surprisingly enough, Asia – not the US - seems to be a main driving area for the automation of investment solutions.**

Matthias Knab Let's take a deeper look at Miami and Florida, how happy are you being based here and how is the community of finance alternative investment managers developing?

George Askew: When I look at the Jacksonville area where I am based, I would say we have 10 or 12 hedge funds. One is very big with $3 billion or more, and most of them are on the smaller side, like me. But, one reason we can do what we do is technology. I am able to run my screens, where I am searching for the type of catalysts I described and do all the trading on one workstation.

Technology has enabled a larger population of managers and smaller shops around, but I also think having a sort of ***tentpole investment management firm*** *in a metro area is vital for hedge fund growth. For example a large firm like Raymond James in Tampa will develop the talent that will become future hedge fund managers in that area. Same thing with Franklin Templeton in South Florida. So you'll see little firms emerge in those markets, albeit on a much smaller scale than what you'll seen in New York and San Francisco. I think tentpole firms in a market are a key driver for the proliferation of hedge funds. Unfortunately we don't have that up in Northern Florida.*

Jeffrey Racenstein: When I first started at the hedge fund, we were located on Palm Beach Island and it was such a change from working in New York. It was bankers row but just one street. I remember when fund of funds or other investors would come to see us, I asked them, "Who else are you going to see?", and it turned out that at that time there weren't that many real hedge funds for them to go see. Now, I keep hearing about hedge funds coming down to south Florida, but I think we are still not a real hedge fund bastion.

Also, compared to when I started in the business 20 years ago, ***starting and seeding hedge funds so much harder now.*** *I was talking to a guy yesterday who said that guys coming out of Tiger Management with great track records get maybe a seed investor, but then raising funds beyond that has become very difficult. I was really surprised to hear that it's so difficult.*

David Coggins: There are a lot of variables that go into having long-term success. One factor is very clear to us though – you need to continue to innovate. The research can't stop, it has to go on because if your R&D stops, then you're resting on yesterday's returns and you become just another fund.

George Askew: I agree with that. Innovations around algorithms and data science will drive more and more investment assets going forward. But that is also forcing consolidation because in that game, scale is critical. My specific strategy of identifying catalysts in stock market regulations is not currently at risk thankfully. But in the algorithmic world scale and innovation will drive share.

Jeffrey Racenstein: I maybe disagree a little bit. Maybe I am a minority here today, because I was a fundamental guy as a manager. Someone was saying the other day that no one is even looking at fundamentals anymore, no one would even read 10-Ks or 10-Qs, but at the end of the day, I would think there is value in that type of information.

David Coggins: Jeff, I think what that person said to you is simply not true. *We are using that type of information, but we are doing it in a different way – smarter, more efficient, and much quicker.*

So right, it's not a guy reading each and every filing. We figured out a way to do it much better, much more efficient and very cost effective. And not only are we doing it better, but we learned in addition to the fundamentals, if you are able to measure the language inside of these annual and quarterly filings, and the tone then you can figure out sentiment which then adds to your statistical analysis and how you are going to position that specific stock.

Matthias Knab And not only that, the cutting edge quant shops then also have feedback loops and iterations in your processes where they are constantly optimizing how they do things. Antonio also pointed to that before.

David Coggins: Correct.

Cliff Oberlin: Also interesting is when we get letters from hedge funds and funds of funds, and these can be billion-dollar plus firms, telling us they are closing down and getting out of the business, or they convert into a family office and just run their own money. That happened to us more than once, it seems like a trend.

David Coggins: Maybe they are stuck in their ways, right? Because their ways got them to where they are today.

Alberto Pagan-Matos: Also, let's not forget the ever increasing cost and burden of compliance.

Matthias Knab Let's go back to Miami and Florida as a base for finance. Antonio, why is your options exchange based here?

Antonio Goncalves: That's a very good question. I mentioned earlier that today an exchange is a highly sophisticated technology infrastructure in a data center. Around the world, there are only a few data centers or hubs where exchanges or better said, the computers that run those exchanges, as well as the market participants have converged.

In the United States, those data centers are in Chicago and in New Jersey - in Europe in London, Amsterdam and Frankfurt. For instance the exchanges of Paris and Amsterdam are in a data center in London - did you know? The New York Stock Exchange is not in New York, it's not in Wall Street as most people think (it hasn't been for many years!), but it's in a data center out in New Jersey. NASDAQ is also out in New Jersey and the Chicago Mercantile Exchange is not in Chicago, but in Aurora, Illinois.

So, the exchanges have become are virtual organizations and their computers can be anywhere – provided their liquidity providers are connected to them via the lowest possible latency connections. In the case of our Miami exchange, our servers are also in data centers in New Jersey and Chicago – directly connected to the computer infrastructures of our key strategic liquidity providers, which are the most important and prestigious firms of the options industry.

But there is one very important value about the headquarters of the Miami exchange still being in Miami – and that is the close, priviliged relationship to a broader community of investors.

Miami today is indeed the financial capital of Latin America - where the most important investors of the continent reside, even if just temporarily. This is the safe financial, taxation and regulatory haven for people from all over the continent. Here they find and enjoy stability, security and the proper regulatory and compliance enforcement which are critical to the health of the financial markets. But its not only Latin America - Miami, is definitely a hub in between the US, Latin America and Europe.

In regards of its future strategy, I'm pleased to report that the Miami Exchange has exciting plans for the future. We intend to expand trading from options into other asset classes while create new trading products. We are planning to launch an equities exchange to compete with NYSE and NASDAQ by 2020. We're also planning to launch an ICO venue - an initiative that I consider fascinating. For instance this weekend Miami is hosting the Art Basel– which is the largest art fair in the world – but who can afford to buy a Picasso on its entirety? In the future, in an ICO exchange, investors will be able buy shares in a Picasso, which will then become a digitized asset just like a financial security – a stock - traded on a securities exchange.

While at the moment there is great interest globally in the trading of cryptocurrencies – everyday a crypto exchange is launched somewhere in the world,- we, at MIAX believe that trading options on cryptocurrencies is a lot more interesting than trading the actual cryptocurrencies. As such, we have invested in the first SEC approved options on cryptocurrency exchange in the US – an initiative called Ledger X, to which we augur great success.

Cliff Oberlin: We have a Bitcoin ATM in the restaurant on the first floor of our Brickell/Miami office building.

David Coggins: Going back to Miami as a financial hub, I do believe that Miami is in the beginning of a historic growth spurt. You are starting to see density, as an example Brickell is getting denser, you can clearly see it. They are continuing to build.

Two things have yet to be fixed, we need to figure out the transit situation here, and the second issue is the talent pool. Graduates from UM business school are earning their degrees and find that there are too few jobs here and so, the talent leaves. Those problems need to be addressed somehow. If corporations start adding more commercial space here, then graduates will have more job opportunities and stay. The transit system has to get fixed though in order for Miami to be a world class city.

Cliff Oberlin: *From the family office perspective, we are seeing some very wealthy families from Latin America. They are some of the best and the brightest out there and they are* ***coming here for safety for their families and for opportunities.*** *There is a buzz that's happening. Miami is an exciting place to live.*

Antonio Goncalves: I agree. But it is quite important to mention that Miami – and the state of Florida – are home to many other wealthy communities besides Latins, including Indian, European, Eastern European, Jewish, Middle Eastern, etc. So Miami is a truly multi cultural hub anchoring wealthy investors from all over the world. The ideal fabric to become one of the worlds top financial hubs.

Cliff Oberlin: Correct, and quite a few of them are part of the ultra-wealthy. So for our business, Miami is a great place

David Coggins: The state tax is a huge incentive for a wealthy family to move here, there's no question.

George Askew: Two and a half years ago, I moved from China to Florida, it was a very smooth transition. Florida has a very high number of **high net-worth investors,** and having that pool around me has been helpful when I launched my hedge fund. There is also a certain level of sophistication, so when I presented the innovation of my fund and the whole mission of exploiting inefficiencies in stocks arising from stock market regulation, they understand the concept and also that it's different. Nobody has ever done that.

So, as a hedge fund start up founder, I have found Florida very attractive. I have also learned a few things. For example, in Northern Florida we have what's called the **Space Coast.** I don't know exactly where the barriers are, but it's like a triangle from about Daytona to Cocoa Beach and Gainesville. In that triangle, apparently like 100 laser companies have been formed and probably 99% of them are private. They are all NASA engineers who left when the funding dried up for NASA. So, I think one thing we might see as far as growth within Florida may well be the rapid privatization of space along the coast.

Cliff Oberlin: It's also a beautiful area.

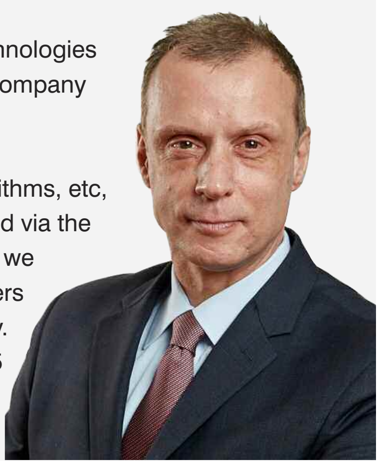
George Askew: Right. So I enjoy Florida very much, it is a very welcoming place and offers good opportunities for investors. And I love the tax break.

Alberto Pagan-Matos: In our case, our business here in Miami is growing very strongly and we continue to be bullish on Miami going forward. Similar to Cliff, we cater to family offices in Latin America, and a lot of services are coming from Miami for that client group, not only on investment, investment banking services, but also things like tax advice and structuring. Here in Miami, we also have firms like the Baker McKenzies, DLA Pipers of the world, and they are very good. So, in our case, despite the challenges of heavy traffic and talent that David mentioned, we are **hugely bullish on Miami.**

Antonio Goncalves: *Miami is a formidable brand in itself – you can go anywhere in the world and people will express admiration for our city. It's the city that everybody wants to move to and I feel very confident about its future.*

From the perspective of a Miami based exchange, we want to bring technology to the forefront of the financial markets. And many of the technologies now emerging are true game changers – especially in the area of data analytics, using big data tools to combine not only classic financial data but also sentiment data, unstructured data, news, etc. The result will be the increased ability to take proper investment decisions by predicting market evolution more accurately.

Other exciting technologies are **augmented and virtual reality** – I personally believe those technologies will have a major impact in the displacement of physical infrastructure – including the classic "company office".



We will have the ability to have applications, screens, news, visualization tools, predicting algorithms, etc, pop up in front of our eyes triggered simply by a voice command. We'll be even more connected via the new G5 mobile technology – and will be able to work collaborative via AR/ VR applications as if we were in the exact same office – anywhere in the world.. These will be tremendous game changers not only for the financial industry, but for all of us wherever and however we live and work today. And those changes are much closer then you think – the world will be dramatically different in 5 to 10 years!.

George Askew: I agree with that. And I also see huge opportunity for the human mind and human ingenuity in investing. I believe there is still room for people setting or discovering some degree of valuation. I think there will be room for little guys and that stock pickers will still have a place to work. They just may not run many billions, but my take is that there is still a room for some niche investing.

Antonio Goncalves: I witnessed with great sadness the gradual disappearance of the stock broker on the floor of New York Stock Exchange. I saw how over a period of 10 years the 5 floors that the New York Stock Exchange decreased to just one. From hundreds of brokers only a few dozens are left – mostly busy at the opening and at the closure of the market. And that is because most of the trading is electronic, and machines have replaced with more accuracy, speed and efficiency what humans did in the past. This is a trend no one can stop – you will see it extend to all areas of the industry – indeed of our lives.

George Askew: Right, and half of that remaining floor is CNBC, no?

David Coggins: *I think that playbook is out the window for the foreseeable future.* ***Going forward, we see 25% – given the projected returns in the overall asset classes – to be prudent or the new normal, when investing in alternatives*** *just because we feel that the traditional asset classes are just not going to perform.*

If you believe that the Federal Reserve forwarded years of returns through their Quantitative Easing program then the returns for the next five, six, years have already been front loaded. This is the landscape right now.

No one wanted a crisis back in 2008. Everyone was up in arms and they were so desperate to fix whatever problem needed to be fixed. Bernanke did the right thing but being a student of financial markets and econometrics, I would argue that if they just let everything stay pat and let such market dynamics work itself out, we would be in a totally different position today. Instead, they have put a band aid on this thing for a very long time and investors, market participants, are unfortunately going to pay for that, and that time has come.

One area that concerns me are **leveraged loans.** That could be a time bomb that's going to erupt. No disrespect to private equity, but PE investors went into commitments when valuations were at all-time highs, now those valuations look different and investors will suffer.

Jeffrey Racenstein: People like to hide in private equity because they don't have to get a mark to market.

David Coggins: But Jeff, I think here it's worse because the investors went into something based on yesterday's valuations, however since every asset has been inflated because of the Fed, that valuation wasn't real.

George Askew: We already have seen down exits in IPOs as part of this bubble market.

Jeffrey Racenstein: What do you guys think about the rush of companies like Lyft and Uber to go public – maybe these guys are also trying to rush because they sense that the markets may not be as enviable or forgiving going forward?

David Coggins: I think there's value, however I don't know if there's value for both Lyft and Uber.

Jeffrey Racenstein: *What's interesting is that I get pitched private stock in pre IPO companies all the time, and we're not big in private equity, so you can smell trouble. I have gotten several calls like, "Oh you want to buy some XYZ stock in the private market?" It kind of gives you a hint that maybe there's an issue with the valuations or the market appetite.*

Matthias Knab It's actually a red flag.

Jeffrey Racenstein: Yes, exactly.

George Askew: They are real businesses for sure, but the question is the price tag.

Matthias Knab Gentlemen, we spoke now for almost two hours, and I thank you for sharing your excellent insights and experiences. We probably have to look at these interesting questions in a follow-up Roundtable on Private Equity!

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Contact

Matthias Knab
Founder
Opalesque Ltd.
www.opalesque.com
Email: knab@opalesque.com
Tel: +49-89-2351-3055
Mobile: +49-170-189-0077