Horizons

Issue 06

Family Office & Investor Magazine

The Fountain of Youth: Longevity as Emerging Megatrend

Outperforming with Smaller Listed Bio- and Med-tech Stocks

The Family Wishes to Buy a Yacht

Mastering "Fear" and "No Fear" Regimes

50 Shades of Family Offices

PUBLISHED BY
OPALESQUE

September 2020

TABLE OF CONTENTS

Matthias Knab
Publisher

What if there was a "cure" for aging?

Aubrey de Grey is one of the world's leading bio-gerontologists and widely known advocate of the provocative view that medical technology will one day allow humans to control the aging process. He has likened human aging to a car wearing down over time: as the body operates, it accumulates damage which can be tolerated for a while, but eventually sends us into an accelerating decline. The most promising way to escape this process is to repair the damage with precise scientific tools.

Of course, these tools and research on longevity need to be financed, and so we also speak about *how investors and family offices can support and benefit from this emerging megatrend.* Aubrey de Grey and other eminent experts such as David Sinclair, Professor of Genetics at Harvard Medical School, and leading investors in this sector will be speaking at the **Longevity Investors Conference** on October 1st 2020, an online event produced by Swiss serial entrepreneurs **Dr. Tobias Reichmuth** and **Marc P. Bernegger.**

We are further exploring investment opportunities in this field speaking with **Marc Pentopoulos** on how to outperform with skillful investing in smaller listed bio- and med-tech stocks while **John McClure** discusses how mastering both "Fear" and "No Fear" regimes can yield profits in up and down markets. With the upcoming US election and volatility expected to remain high, more investors are interested in strategies that can offer desirable anticorrelation and true diversification such as we discuss them in our Skillslab webinars.

Mitzi Perdue and **Dominik von Eynern** are sharing tips how to get to a lasting family business and why a working family governance needs family narratives.

Tobias Prestel sheds some light into the 50 Shades of Family Offices and **Captain Brendan O'Shannassy** explains why family officers don't need to panic when they hear, *"The Family wishes to buy yacht!"*

Amy Hirsch, a veteran with 40 years' experience in alternative investments, is offering guidance how to approach virtual due diligence and **Rolf Dreiseidler** reflects on winners and losers of the pandemic when it comes to fundraising.

Horizons is a free publication, please use this link to subscribe. Past issues can be downloaded here. If you are interested in actively getting involved as a contributor or sponsor of this exclusive magazine which reaches a **readership of 100,000 globally,** please email me directly. I look forward to hearing from you.

Matthias Knab
Knab@Opalesque.com

Aubrey de Grey: Longevity as Emerging Megatrend

Aubrey de Grey

Aubrey de Grey was born 20 April 1963 in London, England. He was educated at Harrow School and studied at Cambridge University's constituent college of Trinity Hall where he graduated with a BA in computer science in 1985. After graduation, de Grey joined Sinclair Research Ltd as an artificial intelligence and software engineer. In 1986, he cofounded Man-Made Minions Ltd to pursue the development of an automated formal program verifier.

At a graduate party in Cambridge, de Grey met fruit fly geneticist Adelaide Carpenter whom he would later marry. Through her he was introduced to the intersection of biology and programming when her boss needed someone who knew about computers and biology to take over the running of a database on fruit flies. He educated himself in biology by reading journals and textbooks, attending conferences, and being tutored by Professor Carpenter. From 1992 to 2006, he was in charge of software development at the university's Genetics Department for the FlyBase genetic database.

Cambridge awarded de Grey a PhD in biology based on his 1999 book The Mitochondrial Free Radical Theory of Aging, in which de Grey wrote that obviating damage to mitochondrial DNA might by itself extend lifespan significantly, though he said it was more likely that cumulative damage to mitochondria is a significant cause of senescence, but not the single dominant cause.

For over twenty years now, de Grey's work focuses to identify and promote specific technological approaches to the reversal of various aspects of aging, or, as he puts it, *"... the set of accumulated side effects from metabolism that eventually kills us."* Starting in 2005, he has been working on a detailed plan called Strategies for Engineered Negligible Senescence (SENS), which is aimed at preventing age-related physical and cognitive decline.

Matthias Knab: Probably since the dawn of humanity, humans were looking to live forever and avoid the decay that's coming with old age. Today, we are looking for the proverbial fountain of youth with the help of science and immense research budgets and we are doing this globally. So, I wonder Aubrey, have we made progress? Where are we today?

Aubrey de Grey: Well, we have made progress for sure and the progress is accelerating but I would like to take issue with your suggestion that there is an immense budget allocated to it. That is indeed most of the problem. It has somewhat alleviated over the past few years, but it's still a really bad problem. At the moment, we are still in the mindset as a society of thinking of aging as something very distinct from diseases and we have invented this completely fictitious notion of age-related diseases like Alzheimer's or most cancers and atherosclerosis and so on, as if they were actual diseases that could be cured like infections when in fact they are simply parts of aging.

Now, you may ask why have we done this? Why do we cling to this **fictitious notion that there is some distinction between the so-called diseases of late-life and "aging itself"** (whatever the hell that's supposed to be)? I believe that is part of the edifice of irrationality that we have constructed over the whole of civilization in order to just keep aging out of our mind and get on with our miserably short lives and make the best of it, rather than be preoccupied with this terrible thing that's going to happen to us in the future.

Now, of course, that used to make sense. That was a perfectly rational thing to do when we had no clue about what to do about aging, about how to bring aging under medical control, but over the past 20 years or so, it has become increasingly untenable. It is an unquestionable fact that we are within striking distance of being able to really address the root causes of aging and bring aging under medical control, and therefore this irrationality is a huge part of the problem. In particular, this irrationality and failure to properly understand and address aging are slowing things down, largely because it diminishes people's enthusiasm for having tax payers' money spent on this research.

Matthias Knab: Right, but research is and has been happening, also via your Methuselah Foundation, which put us, as you said, within striking distance of being able to bring aging under medical control. I understand that for you more money and more funding has to happen. But let's also look at what has happened over the past decades, maybe you can share with us what your Methuselah Foundation and your SENS Research Foundation have been focusing on and achieved?

Aubrey de Grey: The Methuselah Foundation was the first charity that I created jointly with a businessman from Virginia way back in 2003. We managed to bring together a little bit of money basically by raising the profile of this work and offering prizes for progress in extending the lifespan of mice in the laboratory, and that was enough to allow us to start doing a little bit of research and funding a few Ph.D. students here and there.

Then in 2009, we created SENS Research Foundation which is the main thing that I work on, and that has grown progressively. Here we have done quite a lot of research and have made considerable progress in kickstarting a number of critical areas of research that contributes to the eventual defeat of aging, but our budget is still $5 million dollars a year – not billion, but million – and that's exactly the problem.

As I said over the past few years, things have improved in one way, namely that we now have a very rapidly increasing interest from the private sector in this area. Investors have started getting involved and we at SENS have in fact been able to spin out half a dozen of our projects as startup companies that are moving forward and towards clinical trials and so on. So, from that side, the funding situation is slowly improving because there are a lot of people out there who are visionary and wealthy and generally willing to support this work. However, at the same time, they really don't like just giving money away. So, even if it's very early stage and from that perspective more a high-risk proposition, nevertheless they also have a chance of eventually getting their money back, and so they are much more willing to write checks with one more digit on them.

At the same time, the foundation still exists because there are some equally critical areas of research that haven't yet reached the point of investability even for these high-risk, high-reward early stage investors. So, the foundation is still just as short of money as it was.

Matthias Knab: Can you give us some examples of the spin-outs of your SENS Research Foundations?

Aubrey de Grey: Sure, there are quite a few. Last year one of the projects that we spun out into a startup company is called Revel Pharmaceuticals. It is focused on restoring the elasticity of tissue which is important for addressing high blood pressure in the elderly, for example. Also, from a nonlife-threatening aspect, it turns out that the same chemistry is part of an underlying process that is largely responsible for wrinkles. So, it's got cosmetic relevance as well.

Now, the underlying molecular basis for this has been reasonably well understood already for some time, but nobody had figured out any way to do anything about it. We worked on this for over six years funding a research group at Yale University, and they eventually cracked it. They made some nice progress and figured out how to break these molecular crosslinks that form between the proteins that give the tissues like the major arteries their elasticity. We still need some more time until clinical trials can start, but it was something that would never have happened at all if it hadn't been for our foundational funding of this work. That's just one example.

Matthias Knab: That's impressive and underlines a comment I have read in the review of one of your books that applauded you for your focus of combatting aging in a lab rather than the usual "eat healthy and exercise" sort of advice.

Aubrey de Grey: I think <u>exercise or a good diet and so on are worth it, that's not at all put into question, and so following a healthy lifestyle and taking care of yourself is definitely worth doing, but we must always keep a sense of proportion as that's not the fountain of youth as they are definitely only going to postpone the health problems of late life by a small amount and even by different amounts in different people.</u>

For example, I am just lucky: I am one of those kinds of people who can eat and drink pretty much what I like and nothing happens, and I don't even need to get much exercise, but everybody has to pay attention to their body and listen to that body and do what it takes to keep themselves healthy and youthful as best they can. But, whatever you do on that level, you are still going to go downhill in the end and the maximum you can do here is to postpone things a little bit. Of course, when it comes to health, even a little bit is better than nothing, so that's why I'm definitely not against any of this. But, again, <u>at the same time, it makes sense to do what you can to hasten the development of therapies that don't yet exist, that will actually deliver a great deal of more postponement of the health problems of late life, and of course, that's what I do.</u>

Matthias Knab: How can people or specifically investors and donors get involved with what you do?

Aubrey de Grey: Of course, there are many ways to get involved and we want to grow this community as much as possible and we really need people of all kinds. If you are a biologist, in your work you can start emphasizing the right areas of research that have the greatest potential for impact on longevity. If you are a wealthy individual, you can donate to the foundation or of course you can invest. If you're a journalist, you can do what you're doing right now and get the word out to people by interviewing me or interviewing other people and making sure that there is more quality of information out there about our research.

If you are a policymaker, you can influence everything around it.

Even though my main affiliation is as chief science officer of a non-profit foundation in California, nevertheless, because I have been in the field for a long time and I have a high profile in this area, people approach me all the time wanting to know what to do. *I spend a lot of my time making introductions, whether it's between investors and founders of startup companies or to match investors with other investors. People who want to get involved look for some guidance also about things like co-investing in consortia or investing in some venture funds that is focused on this sector. So, there are many ways and every kind of flavor of investment opportunity that exists in any other sector we also have in this sector.*

Matthias Knab: Futurist Ray Kurzweil predicts that [The Singularity] is coming in 2045 and he plans on living long enough to see it, which means he'll be 97 at the time.

Kurzweil has also gained some fame for his exhaustive list of supplements he takes, with coenzyme Q10, phosphatidylcholine, and vitamin D as the most important (https://www.quora.com/Which-150-supplements-does-Ray-Kurzweil-take-daily). Do you follow a special physical or nutritional regime to help you live longer?

Aubrey de Grey: Well, different people need different things, different people can have very different diets in the first place and then, of course, different genetics and physiology that can influence the exact amount of micronutrient that they need.

We do know that genetics and physiology determine their processing of macronutrients, especially carbohydrates and fat. Some people will put on weight if they eat a certain amount of something that would not cause other people to put on weight, and so on.

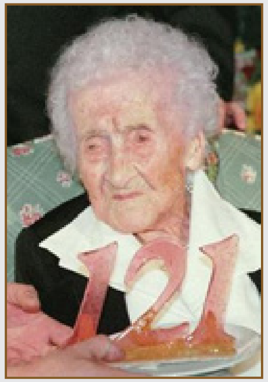
The only recommendation that one can give that has any general validity is that you have to pay attention to your body. You just have to do what your body is telling you to do and resist to go with the flavor of today when it comes to what you put into your body or do with it. That's all we can really say. Everyone is different.

The role of supplements varies so much. You mentioned Ray Kurzweil, and indeed, I am often compared and contrasted with him as he is another high-profile person in this field. Ray is well known to take an impressive list of supplements a day. Now, that's not as different from me as it sounds because you could also say he is doing what I said before, which is he is paying attention to his body, and therefore he also knows that there is a lot of cardiovascular disease in his family. He came down with type 2 diabetes in his 30s, which is pretty rare, and over time he ended up developing this regime which appears to be working well for him. He's now I think 70 and he has not had any signs of diabetes since he started doing what he is doing.

Now, this is of course very positive and congratulations to him. But at the same time, that is in no way any evidence that alone can prove that the same kind of regime would be good for other people. It has somewhat normalized his accelerated accumulation of certain types of damage associated with sugar metabolism, but other people who don't have those deficiencies in the first place, if you are aging normally or especially someone like me who is aging unusually slowly for their age, you know, we have to take a more conservative view.

Matthias Knab: One of the fundamental questions in longevity research is whether humans and other species possess an immutable life-span limit. The debate on this is still going on.

Jeanne Calment, a French woman who lived for 122 years and 164 days still holds the "world record" for the oldest recorded human who has ever lived. She died in 1997, so just from that perspective, it seems that since then we haven't really pushed that limit. Or are we about to?



Since her death in 1997, Jeanne Calment holds the "world record" for the oldest recorded human (122 years and 164 days).

Aubrey de Grey: A lot of people are fascinated by the absolute world record holders and looking at the trend in the statistics and so on. It is actually pretty curious and quite an anomaly that there are three people who died in the period 1997 through 1999 and who still hold the record for the oldest three people in the world. Actually, I think the person in third place was beaten by a few days a year or two ago.

But if you simply exclude those three or four people and just look at everybody else, then the records have been going up at a rather smooth pace of about one year per decade or something like that, maybe a little more, which is pretty much the same pace than the general human life expectancy where the average lifespan in the industrialized world has been going up. So, statistics are hard work when you are talking about very small numbers of people. However, what is important to take into account is the more general trend that we see over a longer period of time.

Let's have a closer look at how the lifespan of humans has developed. In the 1700s, the 1800s, life expectancy was very much lower, it was in the 30s or something like that. And the reason was because so many children would die very young.

In fact, even in the world's wealthiest countries, the incidence of infant mortality was like one in three or more. In other words, more than one-third of babies would die before the age of one. And of course, with the help of science we fixed a lot of that by figuring out that hygiene is a good idea and we developed vaccines and antibiotics, very simple medicines. Now, of course, these issues are still the main driver of the increase in life expectancy today in the developing world and the reason why the average lifespan worldwide has now reached I think 72 or maybe even 73, which is really pretty good. There's not a single country in the world with a life expectancy lower than 50 any more.

But let's also reflect a moment what does this mean and what's next from here? Well, in the industrialized world, that major push in life expectancy had mainly been accomplished by World War II already. But, once you have driven down the incidence of a particular cause of death to almost zero and thus increased a particular average age of death for that particular cause, you can't do it again.

The only reason why life expectancy has continued to rise at all in the industrialized world since World War II is because of progress in other areas and so we have seen that the risk of death, or the mortality rate, has continued to decline. In other words, life expectancy after the age of let's say 50 has continued to increase.

Of course, there are many causes for that and there's still some debate as to which are the biggest ones. For example, it's pretty clear that some of it come from things like the decline in smoking, but most people think that the biggest single is simply prosperity. When people become more prosperous, they are also better fed and have a better diet in general and especially really early in life and even prenatally. It turns out that lots and lots can go wrong in the very early part of life to the extent that some people can end up essentially being biologically older throughout their whole life because of certain deficiencies in their nutrition in early life and pre-birth. Conversely, if you can have better nutrition when you are in the womb, then you are going to live longer. Most people think that these are some of the main reasons why things have improved over the past 50 or 70 years.

What we need to consider next is that *all these factors are eventually also going to have diminishing returns, and in fact, most people would say that this has already happened and that we need to look at other things that are coming in that also can bring down life expectancy and work in the other direction. Take, for example, the obesity epidemic that is particularly bad in the U.S. but not so good elsewhere either. Already in a number of countries, certainly in the U.S., that trend of ever-improving life expectancies is basically leveling off, we are just not seeing an increase any more. That is bad news and it's not surprising that life expectancy even in other countries in the industrialized world is therefore going up only very slowly now.*

But here's the thing. We will eventually see another wave of increase from another source. Again, when we look back, we didn't have this nutrition-based improvement I talked about until World War II or so. But eventually, the kind of things that I work on – regenerative medicine, damage repair to really stop people from accumulating the damage that makes them sick when they get old – that is what's going to drive the next wave of longevity increases.

Matthias Knab: Let's look at the investment opportunities again in this field. You are also active on the Venture Capital side and funding research for the development of medical innovations that can postpone all forms of age-related ill-health.

How can investors interested in his field participate, and what would be some recommendations for investors in longevity? Or, can you already point to some success stories?

Aubrey de Grey: Sure! The spin-outs from SENS Research Foundation are just the tip of the iceberg. There have been half a dozen of those, but I also work with dozens and dozens of companies that have sprung up independently of SENS Research Foundation that are doing very closely aligned and very valuable work. Usually those companies are also just starting out, so they still have only like seven- or eight-digit valuations and they are looking for seed money or Series A funding, so there are plenty of opportunities. So many, of course, that most people don't know how to choose and that's why it's also been important that there are people coming in helping them to choose either their direct investments or their venture funds specifically focused on the longevity with the scientific due diligence skills that are required as well as the business due diligence skills that will be the same in any sector.

There are even companies whose business model is simply to snap up other companies: to have a whole coterie of daughter companies that cover several different areas of damage repair. At the moment I am working with four of those companies, and I think they are all very attractive propositions. They have also all been very successful in bringing investment, especially from wealthy investors who are new to the field. Those investors know that they can't really make good choices themselves and that the best way for them to limit their risk as early-stage investors is to have a diversified investment portfolio, which is what those acquisition companies provide as well as the venture funds provide. You asked about success stories, which for me happens first on the research side, and, indeed, there's a huge number of success stories there. But, at the same time, you can't expect those companies to demonstrate large amounts of revenue because at the moment those firms are built on things that were still just basic science and linked to the laboratory only a couple of years ago. However, you can certainly **measure success** in other ways, for example, companies that have gone through multiple rounds of investments with valuations increasing sharply round on round.

Companies that have gone into clinical trials and the early stage of clinical trials have gone really well. One company, for example, that I work closely with called Unity Biotechnology reported last year on a phase 1 clinical trial of their first drug to get rid of what are called senescent cells, which are cells that accumulate in the body and they do damage. So, as you probably know, phase 1 trials are normally only about safety, not about efficacy, but this trial did so well that even though the number of patients was very small, it was also becoming clear that the drug is actually working.

This is the area I am personally most interested in: focusing on **damage repair**, so not just slowing the aging clock down but actually turning it back. That's where the future is and where we are going to see the biggest effects.

Matthias Knab: What I hear is that while you are coming from and are firmly rooted in the research world, you are also in close contact and working with the financial ecosystem that supports your research work. It appears to me that you seem content with the evolution of that financial ecosystem and how it is surrounding and supporting your work, is that so?

Aubrey de Grey: Content would be too strong a word, but the truth is that I'm always an optimist and a glass half full kind of person. I am delighted that things are moving faster than they were before, but at the same time in my mind is the knowledge that we could be going much faster still if it weren't for the crazy irrationality that surrounds this whole area of aging that I mentioned earlier. And, just to make that point, I am of course not blaming anyone, I understand that this is rooted in the history since the dawn of civilization with people being terrified of aging and not being able to be rational about it. But, *the sooner we can wake up and start actually treating this as the medical problem that it is and addressing it in the same way that we addressing COVID, the sooner we'll actually start saving lives.*

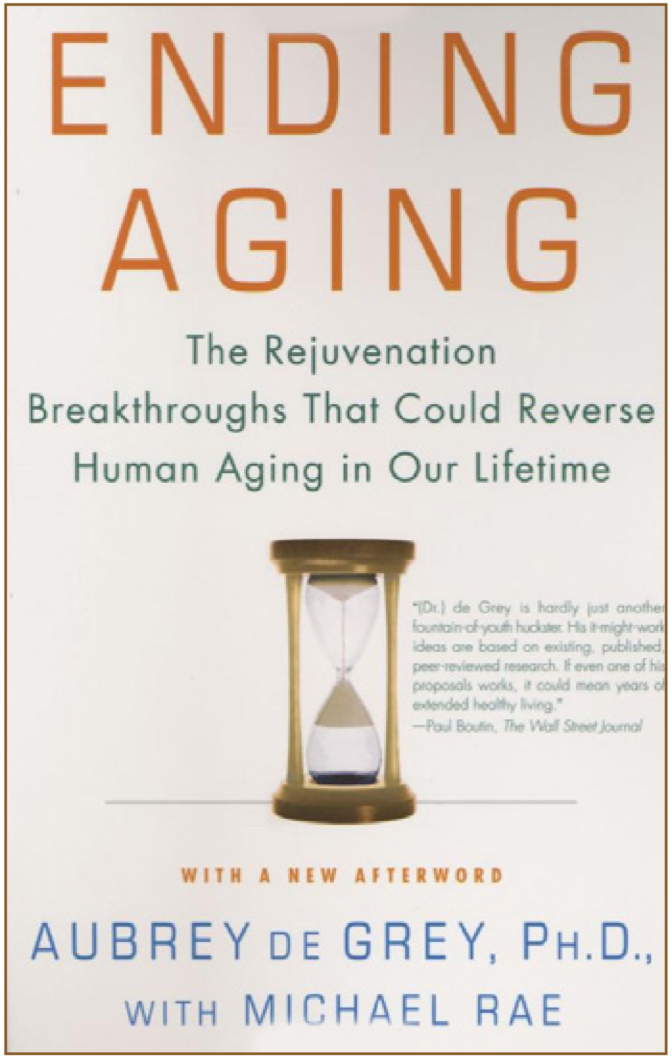
Matthias Knab: Well, it is sort of understandable that people in a way have given up hope when it comes to aging and try to avoid addressing it. They see it's around them, even their pets suffer from it, and it seems just a law of nature that everything needs to end and disintegrate in some form. My sister has a dog and right now the dog has started to turn gray and we already know that the next thing is that he'll start walking slow, so I can also understand why people see the decay of old age as inevitable.

Aubrey de Grey: *Well, at the same time, lots of things used to be inevitable. We think that it's okay to spend large amounts of public money on research designed to cure cancer or to cure Alzheimer's. But, if you think about it, these things are still inevitable too, right? But that doesn't stop us from trying to fix them.* ***So, the problem is this fallacy that there is something kind of off limits to medicine which is called aging, that is somehow wound into the fabric of the universe in some way that prevents us from actually ever doing anything about it.*** *And, again, that train of thought, that perception and that paradigm is for me completely nonsense.*

Let me come back to **pets,** as, for sure, a lot of people would want us to develop these medicines for pets. It's something that will get people really excited and we'd love to do that, for sure. Apart from anything else, the regulations around developing medicine for animals are somewhat easier to navigate than regulations from medicine for people. However, it turns out that pets – foremost cats, dogs or horses – obviously don't live so long as people; herein also lies the the problem in the sense that it is more difficult to get them to live a lot longer. *Basically, there are more gaps in their own inbuilt anti-aging systems, and that's why they don't live as long at the moment.*

However, work is moving in that direction. There are some projects already in progress, a very important one at the University of Washington in Seattle which is looking at feeding certain promising drugs to dogs to try to extend their lifespan. Let me also point out that this work has been done within the dog owner community – in other words, these are dogs that actually belong to people and not in a laboratory anywhere. This means that a lot of diversity is being considered as well, not only on what kind of drugs are being used but also what kind of diets, lifestyles and so on that dogs have. So, a lot of information is being gathered and we hope to see some progress.

Still, also this work is not as much of a solution to the irrationality problem as it might sound. The defeat of aging is no more and no less than the ultimate goal of medicine. All the other goals of medicine are ethically uncontroversial. For example, no one tries to argue that it would be a mixed blessing to have a cure for Alzheimer's disease or cancer. The only reason we feel differently about aging is because, through a necessity that existed from the dawn of civilization until only 20 years ago, we have made our peace with aging so as to put it out of our minds. Now is the time to re-engage that battle.



In 2007 de Grey published the book "Ending Aging" where he argued that defeating aging is feasible, possibly within a few decades, by eliminating aging as a cause of debilitation and death in humans, and restoring the body to an indefinitely youthful state. De Grey points to seven of the most significant known causes of human aging, and what is known about how those causes can be addressed and combated:

1. Cell loss, tissue atrophy
2. Nuclear (DNA) mutations (cancer)
3. Mitochondrial DNA mutations
4. Death-resistant cells (cells not dying when they are supposed to)
5. Tissue stiffening (glycation: stiffens tissues leading to stroke, heart disease, etc.)
6. Extracellular aggregates (or "junk", e.g. beta amyloids)
7. Intracellular aggregates (or "junk", e.g. lipofuscin)

De Grey's main line of research is into mutations in mitochondrial DNA that cause increased cell stress via production of free-radicals. In other words: something that will need to be addressed in a lab rather than in your kitchen or following "eat healthy and exercise" sort of advice.

He also elaborates on the essential distinction between preventative/ rejuvenating and or curative or palliative treatments: Aging damage will inevitably accumulate, so masking or slowing it, alone, is insufficient to extend life dramatically.

Longevity: Possibly the Largest Investment Opportunity in the Coming Decades

Dr. Tobias Reichmuth

Dr. Tobias Reichmuth is a serial entrepreneur and investor. Since 2019 he takes part in “Höhle der Löwen”, the Swiss version of the TV investor show “Shark-Tank”. He has invested in various tech start-ups, where he also holds advisory or board mandates.

In 2009 he has founded SUSI Partners, a EUR 1.5bn infrastructure fund manager with a focus on fighting climate change, after several years of strategy consulting experience at The Boston Consulting Group and after having sold his first company.

Tobias has also co-founded The Singularity Group, a Swiss/Luxembourg based fund-manager with a focus on exponential technology used in all sectors, as well as Crypto Finance Group, the leading institutional cryptocurrency service and infrastructure provider and asset manager. He is also the initiator and president of Cryto Finance Conference (CfC) St. Moritz, the world’s most exclusive blockchain and digital money investor conference.

Marc P. Bernegger

Marc is a serial entrepreneur who co-founded the party platform usgang.ch in his 20s (trade sale to Axel Springer Media). He is also a co-founder of amiando, a ticketing platform, which was purchased by Xing and was named “Global Technology Pioneer” by the World Economic Forum (WEF).

After these two exits Marc has been active as a fintech investor (Partner of NextGFI, Venture Partner of Orange Growth Capital, Advisory Board of FinLeap, ...) and he explored Bitcoin in 2012.

Today, Marc is a Board Member of Crypto Finance Group and CfC St. Moritz and part of the expert network for Blockchain and Digital Economy of the WEF.

Marc holds a master's degree in law from the University of Zurich and did the Executive Program at Singularity University.

Matthias Knab: Welcome to my (virtual, of course) fireside chat the two Swiss serial entrepreneurs Dr. Tobias Reichmuth and Marc P. Bernegger who are behind the Longevity Investors Conference (https://www.longevityinvestors.ch/), an online event on October 1st with some of the world's leading experts such as David Sinclair, Professor of Genetics at Harvard Medical School, Dr. Aubrey de Grey, Dr. Nir Barzilai and leading investors in this sector, e.g. Jim Mellon (Juvenescence), Patrick Burgermeister (Kizoo Family Office), Dr. Alexandra Bause (Co-Founder, Apollo Health Ventures) or Dr. Joon Yun, Palo Alto Investors.

I wonder, how did you get interested in longevity from an investment perspective?

Dr. Tobias Reichmuth: Marc and I attended the Singularity University in Palo Alto in 2016, where you learn about exponential technologies. I was stunned how far we were already with the research of how to live longer, to live healthier and maybe even on how to fight death. One train of thought we got exposed to is seeing death not as something inevitable but more of a combination of sicknesses which you can actually fight.

I think there are three levels of fighting aging: One is doing sports, trying to eat healthy, take care of getting good sleep, etc. The second level is taking precautionary measures with the right medication, e.g. Metformin. The third level, which is not yet that far advanced, is genetical engineering. I was surprised how far and how fast research is developing in that field and pretty soon I realized that longevity research is going to be a gamechanger.

If people get 120 years old and stay healthy until they die, everything changes. The economy, pension funds, living forms, our entire social systems will change. This also means that we will see many investment opportunities in different industries and sectors. For those reasons I took a big interest in the topic. I am convinced that this is one of the major investment topics in the 21st century.

With the Longevity Investors Conference (LIC), we have created a forum with the top researchers and the most knowledgeable investors in this field. The LIC provides access to knowledge in this field, allows to identify investment opportunities and to network.

Marc P. Bernegger: As you know, Tobias and I are among the founders of the Crypto Finance Conference which takes place in St. Moritz right before the World Economic Forum where we also managed to attract very high level investors from all over the world.

We realized that the longevity space is one of the few emerging industries where an increasing number of people are interested in understanding it first and then also figuring out how to invest in the space. What makes our event special is that we are doing it as an **investors' only conference** and exclusively focus on those two aspects.

Matthias Knab: You mentioned that you are looking at longevity also from an investment perspective since 2016. Can you share with us some details of your own track record as investors in longevity? What have you done so far, what has worked out?

Dr. Tobias Reichmuth: Right after attending Singularity University, I decided to engage in the longevity topic and invested in a company called Altoida; Marc also invested in that one. Altoida is identifying Alzheimer very early using big data technology. This allows to slow down the illness, and hopefully in the future to prevent it. The company is up and running, there have been several venture rounds already and the potential is huge.

Another investment I have done in this field is Retrobrain, helping seniors to stay more active with the help of tailormade and interactive video games - another quite amazing company where I have achieved a nice multiplicator when exiting.

Since there are more seniors who are fit and active, I have also invested in Seniors@Work, a platform for to match jobs/tasks with seniors willing to work and use their talent and experience. The platform takes care of insurances, etc., and really provides great value for all participants. Next to those direct investments, I am also investing through funds where you can get exposure to diversified investments.

There are some interesting venture funds out there, some of which are also speaking at the Longevity Investors Conference.

Marc P. Bernegger: By now, Altoida already works with more than 5,000 patients, so it's really becoming a substantial business when you look at the numbers and also at the investors involved.

Neither Tobias nor myself are by education scientists that are very deep in the medical or the broader longevity space, so the normal investment approach would be as an LP of a fund where you can get a diversified exposure to the whole space.

I would also say that the typical investors we aim to attract to our conference isn't really looking to become an longevity expert and investor who will then go very deeply into the individual business case and looks at individual startups, but would probably rather focus on identifying the right experts to do this job. And so from that perspective, we ultimately want to present other investors and ideally the most respective ones at our conference.

One person that comes to mind is **Jim Mellon**, a very wealthy Scottish businessmen who made this fortune in the traditional financial services who for some time now has been allocating a substantial amount of it into this new emerging longevity field. People like him can give very valuable and substantial insights to other future investors into this industry.

Dr. Tobias Reichmuth: To add on that: it's interesting to see how self-made billionaires focus on the topic of longevity. To be mentioned are famous Peter Thiel or also Frank Schüler, for example, who has built a family office exclusively around the topic of longevity. His family office investment manager will be speaking at the conference as well.

This topic is one which moves people. Next to making a nice profit, they share the interest of staying healthy and living longer. With their investments, they support research we will all benefit of. Longevity investments therefore provide a double dividend, not only a financial return, but also support scientific progress. I think this is the motivation of many of the investors in that field.

Matthias Knab: What would you say is the promise of your longevity investors conference?

Marc P. Bernegger: Firstly I think it's education: as you have seen on the schedule, we were able to secure some of the most relevant scientists as speakers who will help the conference participants to build and expand their understanding what longevity really means.

As we mentioned, longevity is not a mainstream topic yet, it is not as visible as other industries, and that's also why it's also something we want to cover, including the investment aspect of it.

Dr. Tobias Reichmuth: Correct, education is number one, understanding investment opportunities and strategies is number two, however, a close third is the networking. At and after the Longevity Investors Conference we aim to facilitate a closed community interaction: you can meet and interact with those movers and shakers in the industry which really bring this topic forward. If today you ask your private banker, "Hey, what should I do on the topic of longevity?", the private banker will most likely answer, "What is longevity?". It's not a well-known topic and therefore the exchange with other investors and simply being able to ask your peers on "How do you tackle that topic?" can be tremendously helpful.

Finally, let's not forget that we will also be talking about measures to actively prolong your life – what medicaments can you take already today in order to stay healthy and to live longer? Is Metformin and NAD really working?

At our Crypto Finance Conference, we had a double digit number of billionaires personally present, and also for the Longevity Investors Conference we already got several subscriptions of billionaires attending themselves. Most of them are now in their 50s and above and tend to really take the topic serious. They are not wrong when they are saying, "I do have the means to move something in this field. I would like to understand what is happening and meet like-minded investors." And that's what our conference is doing: as a peers only conference, we don't invite private bankers or lawyers. It's an investor conference where, whoever you talk with, you can really meet other investors on eye-level. That's exactly what the Longevity Investors Conference stands for.

Longevity Investors Conference

1st October 2020

01.10.2020

12:00 CET

ON-LINE

PH.D., A.O. DAVID A. SINCLAIR

Professor, Harvard University

JIM MELLON

Co-Founder and Chairman of Juvenescence

DR. AUBREY DE GREY

Chief Science Officer, SENS Research Foundation

*selection of speakers

REGISTER TODAY!

www.longevityinvestors.ch

The Longevity Investors Conference provides relevant insights into the subject, expert education, investment opportunities, and excellent networking opportunities.

The conference is targeting investors from (U)HNWIs, Family Offices, VCs, Private Equity Funds, Private Banks and Asset Managers.

Marc Pentopoulos: Outperforming with Smaller Listed Bio- and Med-tech Stocks

Marc Pentopoulos

Marc Pentopoulos, CFA, is a bio-tech and med-tech expert with decades of experience in medical technology, drug development, and finance. He is the Managing Partner of Vista Point Capital where he runs the Parallax Biomedical Fund that focuses on opportunities in biotech public equities primarily in the US and in Europe. He has an MBA from the Wharton School as well as the University of California Berkeley BAs in Molecular Biology and Economics.

Marc's fund has vastly outperformed not only the S&P but also his peers and all applicable indices. Investment Ideas are generated in-house and evaluated in a rigorous bottom-up fundamental analysis style. The fund's 20 to 25 core positions are growth stocks in nature and are focused upon small capitalization companies with market capitalizations of less than $ 2 billion.

The field is complex, and significant market inefficiencies exist, especially in the valuations of smaller public companies, presenting significant opportunities. In this interview we will be examining how a successful fund manager in public bio-tech and med-tech stocks invests.

Matthias Knab: Marc, as a start, can you sum up for us why investors should look to invest in your sector, so (why) bio-tech, med-tech and healthcare?

Marc Pentopoulos: Healthcare represents a large percentage of the US and global economy. Currently, healthcare represents about 13% of the S&P500 and just under 20% of the US economy. *But, more importantly, humans cannot function well without good health and often treatments are needed for specific conditions. However, the sector is difficult to understand as there are scientific, government regulatory and economic conditions that can all affect the success of new therapies. At the same time there is tremendous innovation that has taken place in the area over the last 50 years making therapies possible for conditions that were previously untreatable.*

The COVID situation has also taught us that as much as our understanding of healthcare has advanced, there are still new issues and situations that come up that we need to tackle scientifically and that presents opportunity for those that know how to tackle these diseases.

So, the broader healthcare sector is **one of the few growth areas** in the US and in the global economy right now. Obviously with the COVID-19 pandemic, the solutions tend to come out of biotech and this domain will remain an important and innovative part of the world economy. In addition, as the population pyramid inverts as a consequence of an aging population, the sector will continue to grow in size and relevance.

Matthias Knab: You haven't mentioned your returns, which – while past performance is not necessarily indicative of future results – look really interesting as with 54% net return in 2019 and xx% as of Aug. 31st this year you have outperformed not only the S&P but also your peers and all applicable indices.

What is behind your outperformance, what differentiates you from other healthcare funds?

Marc Pentopoulos: *We invest in smaller companies, where there are more inefficiencies. These companies are still in the "show-me" stage of development, but when you look through these companies, you can often find very promising drugs trading at a fraction of what they are worth.*

There is far more inefficiency in this segment of the market as Wall Street often ignores or pays junior analysts to track these stocks, and occasionally one can find stocks with promising technology and products trading at close to zero enterprise values. It typically pays to be patient when investing in this industry, especially on new technologies.

There are a lot of challenges to inventing, developing and commercializing a new therapy and there can be a lot of bumps along the way. This path to development can provide for excellent investing opportunities as the sector tends to go in and out of favor and certain missteps by companies can provide for long and short opportunities. When products show good signs of efficacy this can provide for a period of sustained outperformance by the company developing it. We also have **both investing and operational experience** which helps us better understand what it actually takes to develop a therapy and bring it to market.

Lastly, it's not only about the technologies but also having insights whether the team that's in place at a certain company is able to drive the firm to either an exit (being acquired) or to successful product launch.

Matthias Knab: OK, I get the aspect on the opportunities, but how do you deal with the risk that's inherent in this sector? Events seem so binary.

Marc Pentopoulos: While it is true that the sector is risky, there are ways to invest in the sector that can **help mitigate some of the risk.** It is true that betting on a particular clinical study carries risk, however, one can look more closely at the drug and study to determine whether there is higher or lower probability of success. In addition, the valuation, pipeline, underlying technology and balance sheet of the company all tie into the downside risk of a negative clinical risk.

For example a company with a $2 billion valuation going into phase 2 clinical data with only $50m on the balance sheet and no other products in the pipeline can potentially pose much more risk than a smaller company with say a $300 million valuation and a pipeline of other promising drugs. One needs to take many factors into consideration when determining whether it is worth carrying the clinical risk and what type of portfolio exposure to take into a clinical event. In addition, a careful study of previous data can give some hints into the likelihood of success. But one *way we look to limit downside risk and preserve capital is to find* ***out of favor names with a low enterprise value and solid technology,*** *this usually puts some underpinning on the valuation, especially if there is a strong balance sheet. One additional strategy to preserve capital can be to trim the size of the position if the stock appreciates significantly in expectation of a positive clinical data event, therefore reducing the downside risk in the event that the data doesn't show good results.*

Matthias Knab: What areas of healthcare do you invest in? Do you focus on any subsector of biotech?

Marc Pentopoulos: We focus on companies that have novel treatments, devices or diagnostics that improve the outcomes of care. Either a diagnostic to improve detection of diseases, or a therapy or device that improves the delivery or outcomes of disease. In addition, we focus on smaller companies, usually less than $1 billion in market cap where see concrete events that will demonstrate the value of the therapy in development over the coming years. While we look for opportunities globally, we do focus most of our investments in the US and in Europe. We look for undiscovered names where there is significant potential for upside in the coming years.

We are not focusing on specific subsectors but rather try to be as opportunistic as possible. There are times when there are a lot of compelling **opportunities** in oncology and there are times when the opportunities lie more in metabolic or psychiatric therapies. The important thing is to make sure that there is a large unmet need and that the therapy in development has a good signal of efficacy and is something that treating physicians will have an interest in once it gets to market.

Matthias Knab: How does your bio and your professional experience come into play when you invest?

Marc Pentopoulos: I have over 23 years of experience in this area, both on the investing side as well as on the drug development side. This means I have seen a lot and been through different cycles, and so while we look to discover these out of favor but promising bio and med-tech companies, we also take a view towards protection of capital. As you have referred to, this is a very volatile space and so we will make sure that we are selecting ideas where we think the downside is quantifiable and where we see a lot of upside. We try to position the portfolio in a way to attempt of minimize the downside volatility but allow for the significant upside.

So, our investment process starts with idea generation and then comes due diligence of these ideas, the determination of sizing of the positions, and an analysis of overall portfolio construction. Then of course there is ongoing risk management and assessment of each of the positions in the portfolio.

Apart from my own 20+ years of evaluating technologies and companies, I have a significant **network** of industry professionals, doctors, scientists, and other industry and academic groups as well as a number of buy-side contacts that I consider intelligent investors to share and discuss ideas from time to time.

Matthias Knab: What are the key criteria that make a good company in your sector?

Marc Pentopoulos: We really like three factors to line up if possible: **(1) good management, (2) good technology, (3) large market potential for the products and an ability to sell them for a high margin.** Then the trick is to get to know the company well and have the opportunity to buy the stock when the company is trading at a significant value to what we believe they are worth.

Sometimes two out of three factors can be an opportunity if the company is selling at a low enough value, but ideally all three line up. Drug development is quite difficult, so you really need good underlying technology, evidence from preclinical models that the treatment really solves the issue it is trying to solve, and then the human clinical studies need to show that it works in humans. Obviously over time, the human experience can further perfect the therapy and how it is administered by the patient or physician. The company also needs to figure out which people will respond best to the therapy and determine a regulatory strategy to get it to market and then a sound commercial strategy to get the drug into the hands of physicians so they can prescribe it or use it in surgery if it is a medical device.

Given the many moving pieces you need a solid **management team** that can pull together the right team to make all this happen, and so one of the most important things is to really get to know management and understand the quality of the management team at a specific company. This is an industry which requires multiple different skill sets and so you need a high quality management team that can attract the right team to actually be successful in this industry.

We are also careful when it comes to **timing.** When we are evaluating the upside potential, we obviously also look at the current market cap, how strong is the balance sheet and does it makes sense to get involved now or to wait? Sometimes, for example, if it's a new management team that I have never met before, it really makes sense for me to follow them for some period of time. From time to time we will follow a company for two or three years before we invest in it.

Matthias Knab: What about short opportunities, how do you pick shorts?

Marc Pentopoulos: *Short positions can be more tricky than longer term value investments on the long side, given that the timing has to be much more specific than waiting for an investment to play out on the long side. Typically, what we are looking for is a company that has achieved a significant valuation, often way more than even the most optimistic scenario can justify, starts to have issues either clinically or in their selling efforts. It's quite difficult to time the top of overvalued companies, so we often wait for the troubles to show up, with the bet that the troubles will continue for some time and the company will lose value in its share price over that time.*

There is often a mismatch in the market capitalization value of our (longs) versus our shorts. We prefer to **short higher market capitalization companies** for two reasons, the first being that we are looking for overvalued shorts and undervalued longs and the other is that it can be very painful if one is short a $300 million market cap company and all of a sudden it comes up with positive data. If a short position already has a $2 billion market cap, the upside potential on positive data is usually lower. And given the inefficiencies in the smaller names, even if the smaller company has data that is a bit ambiguous, the company can spin the data in a way that drives the valuation higher, so one has to be quite careful in shorting smaller companies. Usually the safer smaller companies to short are ones where there will be little potential for their commercial products once approved by the FDA or EMA and the company has to demonstrate sales growth to meet the analysts' optimistic forecasts.

To be a bit more specific, we have a smaller number of short positions in what we believe are overvalued companies where there's also a **significant catalyst** in the near term. Maybe investors have priced in a product growing at 40% to 50% for the next few years, however competition is going to moderate that growth to maybe 20% to 30% and that should lead to a significant decline in valuation. Or there is going to be some regulatory risks and you are already realizing that the company isn't really communicating what the issues are with getting the product through the FDA. Those kind of issues can also lead to significant downside moves in the company and so we are targeting overvalued names where there is defined catalyst that will push the valuation down over the next say 12 months.

Matthias Knab: Tell us more about your position sizes and your typical holding period for an investment?

Marc Pentopoulos: Ideally, we will hold a long position for a number of years, and participate in a significant appreciation in value of the company. I would say on average we hold a long position for about 2-3 years, but sometimes it is much shorter, and other times much longer. A lot depends on the execution of the team and the valuation of the company and how the prospects for the company develop over time. If a company is able to successfully develop a pipeline of products, it can end up being worth a lot more than perhaps the original investment thesis. On the short side, the holding period is typically shorter, and usually ranges from 6 to 18 months. If it hasn't worked in 18 months, the thesis probably hasn't worked out.

Long positions typically get initiated between 2% and 8% and the position sizing really comes down to the conviction that's driven by those factors I have mentioned earlier, quality and potential for the technology, the quality of the management team, and the evaluation of the company relative to what it could become down the road. On the short side, they tend to be between 2% and 4% of the portfolio depending on these catalysts that will drive significant downside in the stock in the near term.

Matthias Knab: What other factors drive your overall portfolio construction?

Marc Pentopoulos: One aspect is of course the number of names that really fit our criteria, but we also need to be conscious about the outlook for the sector and subsectors. Sometimes there are all kinds of **macro factors** like political headwinds that we need to be cautious about.

There are also times with great enthusiasm about the biotech sector. Then, everybody wants to own biotech, there are 20 deals happening every night, or you see quick overnight deals being priced at almost no discount. Those tend to be times when you need to be a little more cautious.

On top of that, you also need to know what the insiders are doing at these companies. Are they buying stock? Or is it difficult to get a deal done, in which case you need a lot of the insider participation with some outside funds – those tend to be pretty good deals to participate in.

Once we are in a position, we constantly monitor them, looking at their upside and making that the management teams are executing on their game plan.

Matthias Knab: You said you need to be cautious about political headwinds – what do you think of the current political environment when it comes to healthcare costs?

Marc Pentopoulos: We think many would agree that healthcare costs have gotten out of hand in recent years, especially in the US. The political factor is probably more a risk now than it has been in the past given the large number of layoffs and the huge budget deficits. The question is will this play into pressure to lower drug prices and will it be across the board cuts or focused cuts in particular areas? We don't think the government wants to cut off pharmaceutical innovation as it is one of the growth areas in the economy, so we don't think they will do any dramatic in the near terms to dramatically cut the pricing of innovative new drugs. But the current administration is certainly signaling that Americans shouldn't be paying more for drugs that people in other countries, and that may change the pricing structure of new therapies both here and abroad.

Matthias Knab: From the perspective of an investor, how has the COVID pandemic affected your space?

Marc Pentopoulos: The COVID pandemic has certainly created interest in certain areas of the biotech sector, as evidenced by the big rise in stocks that have vaccine and therapeutic candidates. The other driver has been M&A which seems to continue as larger pharma companies look to expand their pipelines. These two factors on top of the current thinking that biotech is recession proof has really driven biotech's outperformance this year.

Matthias Knab: What do you think of the COVID companies at their current valuations?

Marc Pentopoulos: I think there is quite a bit of risk in investing in these companies at their current valuations. There is not only the clinical risk but also the competitive risk as there are a few companies with programs out there. I think given the large run they have had it would make sense to wait for more data before trying to pick a winner in this field.

Marc was also speaking at a recent Opalesque Corona Fighters webinar, you can watch his presentation in a video replay here https://www.opalesque.com/webinar/#pw8 (scroll the video forward to 46:20 (min:sec).
To contact Marc Pentopoulos and his team, email: managerinfo@opalesque.com.

Mastering the “Fear” and “No Fear” regimes means Profits in Up and Down Markets

John McClure

John McClure is the founder of ProfitScore Capital Management which develops and implements quantitative-based investment strategies. John formed formed ProfitScore in 1998; he has been involved in quantitative based research for over 25 years. Mr. McClure was an Independent Trustee for Northern Lights ETF Trust and President and Chairman of the National Association of Active Investment Managers. Mr. McClure holds a Bachelor’s Degree from Tennessee Technological University and a Master’s in Business Administration from the University of Tennessee Chattanooga.

John McClure: The ProfitScore U.S. Treasury PLUS Program is a short-term systematic strategy that trades the long end of the yield curve, so with 10 plus years in duration.

ProfitScore is a data-science based organization. We employ award-winning researchers, including PhDs and data scientists. Over half of our gross income is invested in R&D, so we are fully invested in improving our current processes and investing in our future. We run approximately $200m, $100m of that is invested in the Treasury Program. We are registered with the SEC and NFA.

When you look at our numbers, you could consider this strategy a defensive strategy with a positive carry, as it is reflected in the monthly and annual number. If you were to focus in on the years where risk assets are under stress – so Q1 in 2020, fourth quarter of 2018, 2016 and 2015 – those kinds of years are our best performance. Therefore you could say that when risk assets are under pressure, we

US Treasury PLUS: Outperformance with Valuable Risk Offset

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	ProfitScore Annual	S&P 500 Annual
2020	4.3	3.4	-3.1	5.1	2.1	-1.3	1.8						**12.69%**	**2.52%**
2019	-0.6	0.4	3.0	-2.1	1.0	-0.1	-1.8	-1.2	1.0	-2.2	-0.2	-0.5	**-3.39%**	**31.22%**
2018	0.8	-3.6	4.8	-0.9	2.7	-1.9	0.9	0.9	-2.4	3.3	-0.7	3.8	**7.59%**	**-4.56%**
2017	-1.4	-2.9	0.6	-0.4	3.3	0.3	-0.2	1.5	-1.2	-1.2	-0.8	4.1	**1.48%**	**21.70%**
2016	0.5	15.4	1.4	-1.4	1.1	2.4	2.9	1.2	0.5	-2.7	4.0	2.6	**30.37%**	**12.00%**
2015	3.2	8.2	-1.5	1.2	0.8	5.7	2.8	7.8	7.4	1.9	1.5	5.0	**53.26%**	**1.25%**
2014	1.5	0.0	-1.1	-0.1	1.2	-1.3	1.6	1.1	-0.6	10.8	0.4	10.7	**25.80%**	**13.46%**
2013	-1.3	0.4	1.6	-3.6	-0.1	1.1	-1.3	1.1	0.6	2.3	1.4	1.5	**3.64%**	**32.31%**
2012	0.0	0.2	0.3	5.1	-0.9	2.3	-1.9	-2.5	-2.8	2.9	-0.6	1.9	**3.87%**	**15.99%**
2011											-0.7	9.1	**8.31%**	**0.63%**

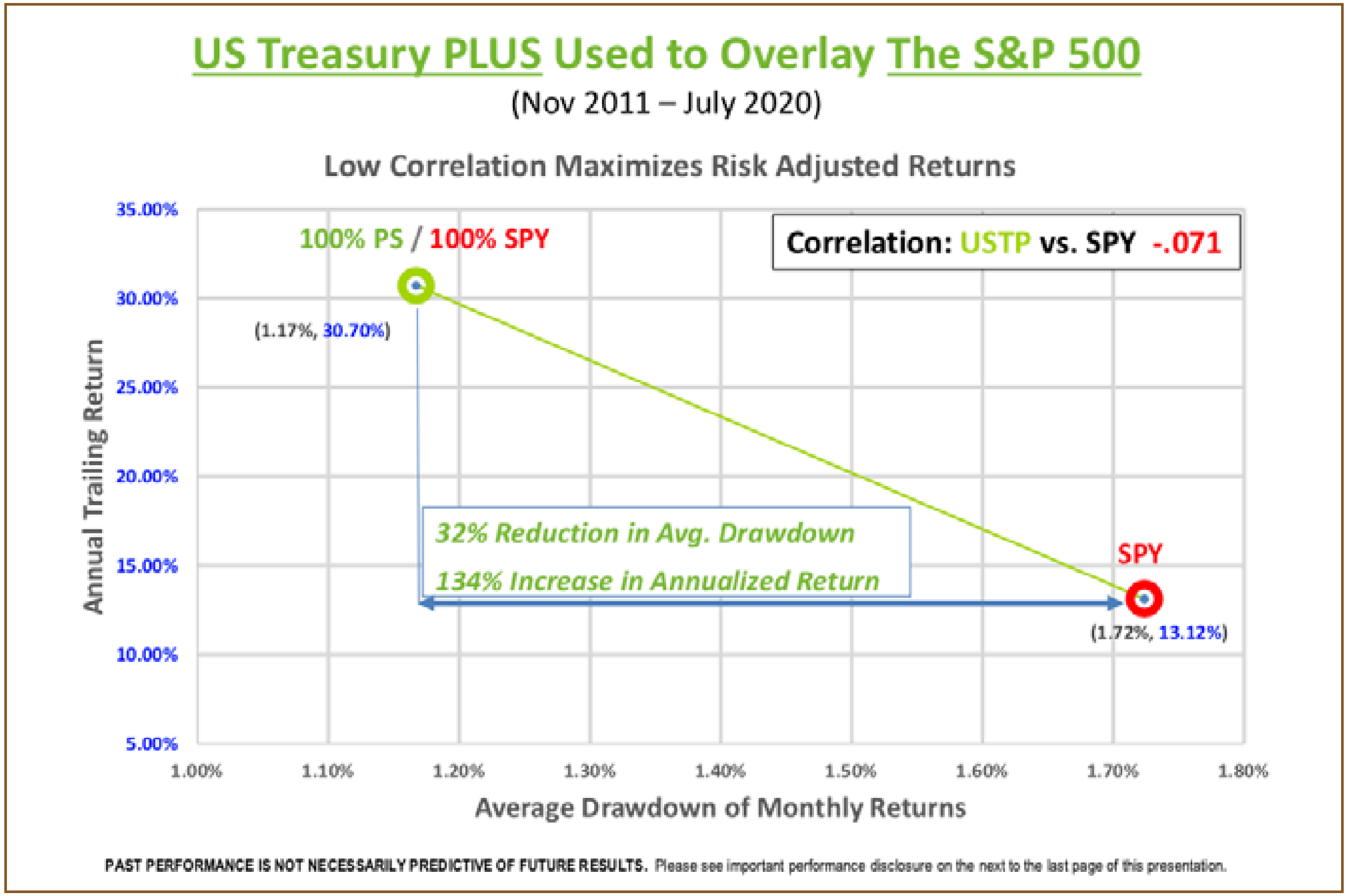
CTA - Trading Managed Futures - Standard Fees

RIA - Verified Trading Signals - Standard Fees

PAST PERFORMANCE IS NOT NECESSARILY PREDICTIVE OF FUTURE RESULTS. Please see important performance disclosure on the next to the last page of this presentation.

perform our best. Conversely, if you were to look at the years when equity markets are taking a moon shot like 2019, 2017 and 2013, we make a modest profit on average. But, most importantly. we are not a negative drag or negative carry on the risk assets in a portfolio.

Here is another slide we like to show to offer some perspective of how this could be used in a portfolio because we see this strategy basically like a tool in an investor’s toolbox. Because of the capital efficiency of futures, you can use this strategy to overlay risk assets in portfolios. In this particular example, we have overlaid a static allocation to the S&P 500. Because of our low to negative correlation to risk assets, we are able to significantly improve the overall performance a little over 100% and reduce the drawdown of an allocation to the S&P 500 itself by a third at the same time.



Matthias Knab: Can you give us a bit more detail how the strategy works?

John McClure: Sure! We trade the long end of the curve, so 10 plus years in duration in a short-term systematic strategy. Our average trade length is approximately three days, so we don’t need long-term trends to develop in order to be profitable. We also don’t care if interest rates or yields are going up or down.

When you crunch our numbers, one thing you’ll find is that we clearly have an informational edge: **our hit rate is approximately 59%.** In addition, our correlation is low to every asset class, every CTA, every hedge fund category that I’m aware of. What this means is that where ever someone might put a strategy like this in your portfolio, it’s a great tool as an overlay in any allocation bucket, no matter if the investor puts us into a short-term bucket, a fixed income bucket or use us as a defensive strategy.

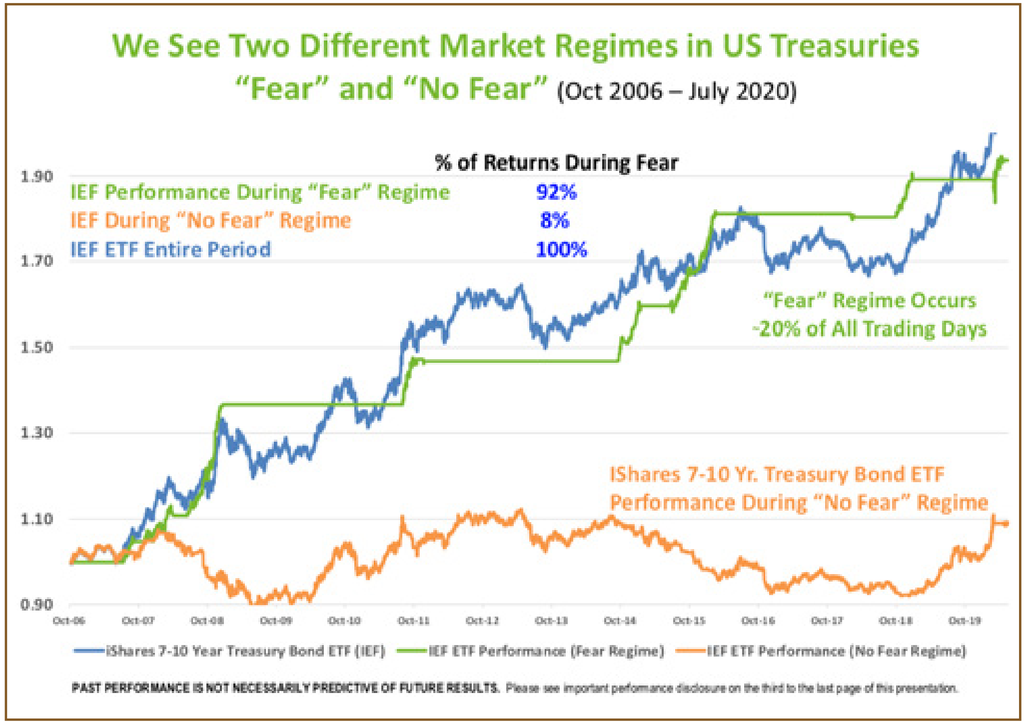
Let me also point out that we provide complete transparency here at ProfitScore. There are no black boxes, and so when we’ll do investor presentations – these days more over the internet than in person – I bring all members of my research team and we take you under the hood to show exactly how we make profits here at ProfitScore.

Matthias Knab: How important are macro factors or the US Federal Reserve Bank for your strategy?

John McClure: Thanks to the Federal Reserve and world reserve currency status, U.S. treasuries have a structural advantage over every other asset class in the world. In 1978, the Fed added full employment to its mandate. And since that time, when the U.S. economy gets under stress, the Fed steps in to stimulate the economy. They do that by lowering interest rates, possibly purchasing financial assets or by using other tools in their toolbox. The net effect is that treasuries get a bid. Now, most people are aware that this relationship exists, but almost no one is aware of just how powerful that relationship is.

ProfitScore's best IP, the best thing that we do, is our ability to be able to measure and capture the flight-to-quality movement onto the U.S. Treasury market. Let me show you what I'm talking about.

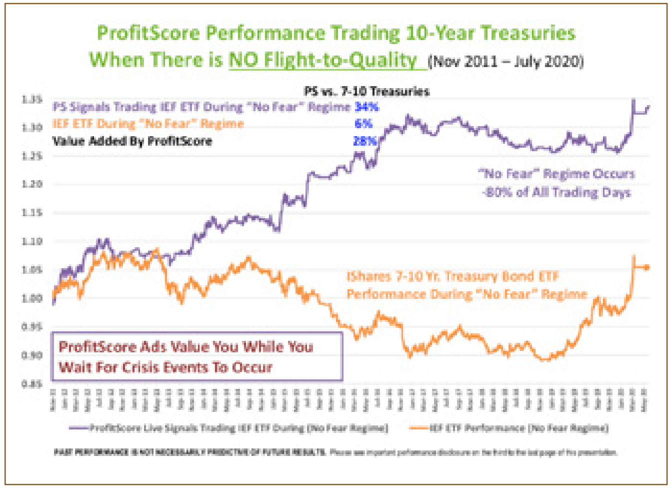
The blue line is the total return performance of 10-year treasuries, and the green line represents the performance of us trading 10-year treasuries but only during the flight-to-quality period. You'll see that for a period of time on the far left, there's flight-to-quality activity going on. Then there's no trading for an extended period of time, and then there's flight-to-quality and it goes flat again, and later flight-to-quality comes back in.

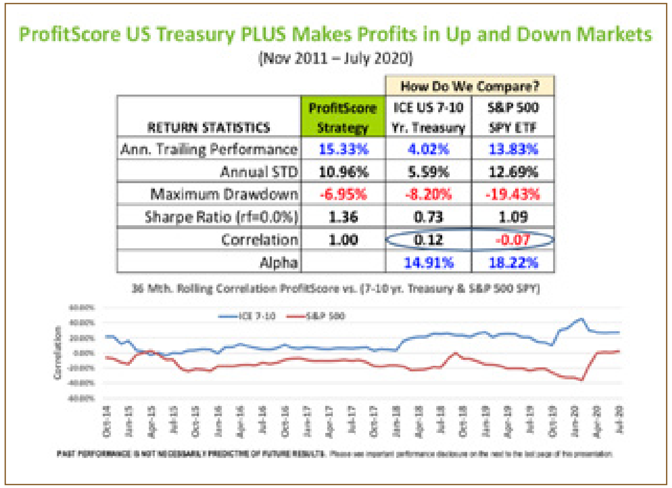


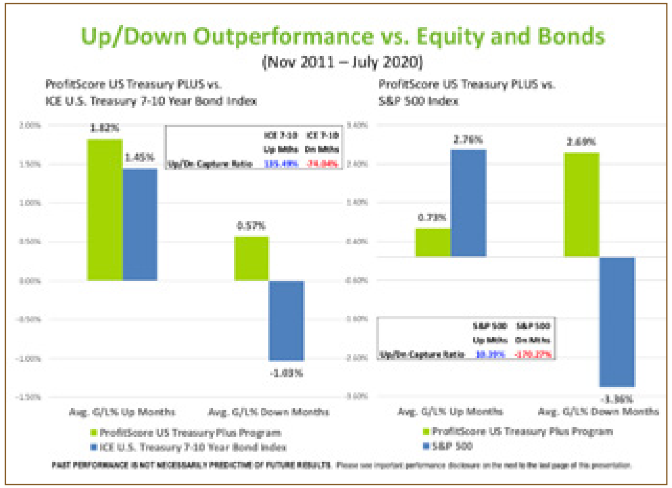
But in the top right-hand corner, you'll notice that the green line and the blue line end up in a about the same place.

Now, this flight-to-quality movement only occurs approximately 20% of the time. But historically, it has produced 92% of all the performance into flight-to quality trading. Investors are usually looking to allocate to money managers that have an edge, and that edge shows up in their performance. At ProfitScore, you could say that our best edge is literally backed by the United States Federal Reserve.

Now, to show you how further how extreme this example is, if you were to subtract out the green line performance from the blue line and stitch together the 80% of trades that are left or activity that's left in the 10-year treasury, that's the orange line down below. We trade both market environments, but we trade them completely differently. We actually look at the Treasury market as two completely separate asset classes that have to be traded completely differently.



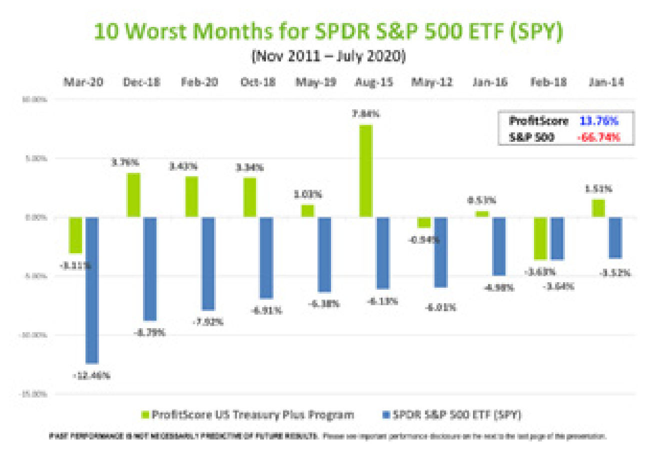




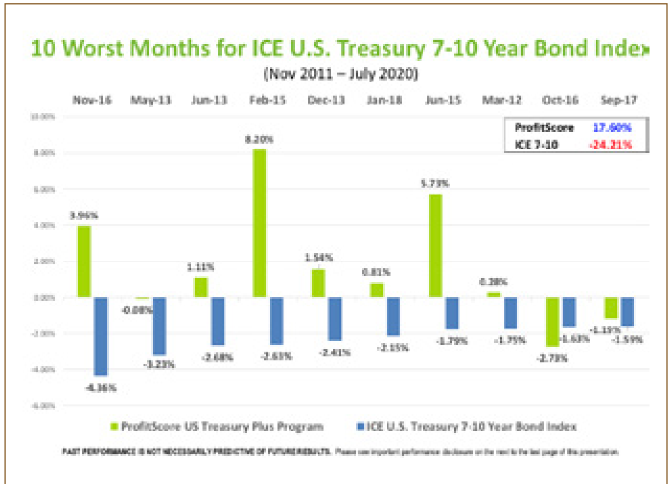
In this next slide, you'll see what the non-flight-to-quality market looks like. Here you don't see this herd mentality or flight-to-quality that's going on. People own treasuries for a multitude of different reasons. The orange line is from the previous page and the purple line is our performance in this very difficult market. This is actually where positive carry comes from. We work really hard in this environment. We use different sources of information to capture the gains in this challenging market, and we add significant value above and beyond what somebody that possibly would hold treasuries in their portfolio would get.

Here you see what happens when you bring both environments together in the same portfolio. Under the green label is our performance since we've been live compared to 10-year treasuries and the S&P 500. I've circled in the correlation for the U.S. Treasuries and the S&P 500, so you see that we don't have a correlation to longer dated U.S. treasuries nor to the S&P 500. That has a lot to do with the short-term systematic framework in which we manage this asset class. At the bottom is a 36-month rolling correlation of those two asset classes.

If I only had one slide to show you to explain how our performance works and where our value is at, this would be the slide. This is an upside-downside capture ratio. On the left half is 10-year treasuries and on the right is the S&P 500. When 10-year treasuries are up, we generally make a little bit more money. But importantly, when 10-year treasuries are down, we produce a positive result. This means that we have a significant downside negative capture ratio to longer data treasuries. And on the right half of the page, you can see that the S&P 500 is generally why people hire us because of how we function compared to long equity risk assets in a portfolio. When those risk assets are losing money, we have our best performance. But as importantly, when risk assets are making money, we are not a negative drag to the performance of your overall portfolio.



Here you see the worst 10 months of the S&P since we have been live in blue bars with the green bars representing our performance during those worst 10 months. When the S&P 500 is s losing money in those months, on a non-compounded basis the loss is approximately 66% while we made 13% during that environment.



This is the same graph but different asset class. Blue bars here represent the worst 10 month in 10-year treasury since we have been live and the green again our performance during those worst 10 months. And once again, we produce a significant downside and negative capture ratio.

Matthias, I could continue going through the list of benefits of this strategy and how it could be a tool in an investor’s toolbox. Let me put out a challenge to you or any interested accredited investor reading this.

So I am challenging you because I’ve done all the research, I’ve compared our performance as it relates to other asset classes and as it relates to other hedge fund and CTA categories, and I know that we move portfolios higher in the Northwest quadrant.

My challenge to you is: Take 20 minutes and take our monthly performance, blend it into your portfolio to see if we add value. And if you don’t have the time, I will put my research team to work: you can send us your monthly numbers and we’ll do the work for you and share with you our results. I know there’s value to be added if if you’ll take the time to just give it a look.

John McClure was also speaking at a recent Opalesque FIXED INCOME REPLACEMENT Strategies webinar, you can watch his presentation in a video replay here https://www.opalesque.com/webinar/#pw9 (scroll the video forward to 54:45 (min:sec).
To contact John McClure and his team, email: managerinfo@opalesque.com.

Mitzi Perdue: Want your Family Business to last? Five tips for getting there

Mitzi Perdue

Mitzi Perdue identified the failure to develop the right family culture as the main reason why family businesses fall apart and shares **five practical tips** to develop and maintain such a culture.

Mitzi Perdue is the daughter of Ernest Henderson, the man who built the Sheraton hotels from one hotel to more than 400 during his lifetime and was the first hotel chain to be listed on the New York Stock Exchange in 1947. She is also the wife of Frank Perdue whose promotion of the Perdue brand through high-profile advertising resulted in creating the first well-known brand of chicken in the U.S. While Frank is now recognized as a visionary – branding his Perdue Farm chickens with his own name and being the first to put a name tag on them – Mitzi says that as much as she admired him for his success in business, she admired him even more for his success as a family man. Mitzi is also a businesswoman in her own right. She started the family wine grape business, now one of the larger suppliers of wine grapes in California.

Mitzi likes nothing better than to share insider tips for successful family businesses. The Hendersons started their Henderson Estate Company in 1840 and her Perdue family started in 1920 in the poultry business. These two families have a combined tradition of 278 years of staying together as a family.

You may be familiar with the statistic that 70% of family businesses don't make it to the second generation. The big question is: how can you beat these odds?

Family members need to learn some basic cultural attitudes. They need to know that they're part of something bigger than themselves, and that they can't always be right. They need to learn that being a member of a family business sometimes requires sacrifice.

The biggest reason that business families fall apart is that the family hasn't developed the kind of culture that supports keeping the family business in the family. Families that leave this to chance rarely make it to the next generation.

So, how do you create this kind of culture?

Know your family stories. We are the stories we tell ourselves, and high-functioning families have heard their family stories over and over again. How much does your extended family know about where the family business came from and what made it what it is today? How much do they understand the sacrifices, efforts and tenacity that went into making the family business you have today? Do they know stories about family members putting the good of the family ahead of their own interests? Be intentional about telling these stories. The more stories, legends, myths, and parables, the stronger your family's culture and the more likely your family business is to endure.

source: www.freepik.com

Take family vacations. Your family vacation could be five people or 100 people, but whether it's a large group or a small one, having aunts and uncles and cousins spending time together greatly increases the chances of building a family business that lasts. A vacation means time set aside to share experiences and to get to know and appreciate each other and to embed the family's values. It's a time for all branches and all generations to build the shared stories and memories that lead to trust and caring. This is especially important if family members are geographically dispersed, because it allows extended members to get to know each other.

Subsidize a family vacation after you're gone. All too often when the patriarch or matriarch passes on, family members stop seeing each other. Maybe for the first few years, they're together at major holidays, such as Thanksgiving. And later on, maybe they get together for weddings. But gradually, there's nothing left and family members have superficial relationships – or no relationship at all. A highly effective antidote to this is to leave money in your will to pay for a yearly get-together. Some families subsidize an annual dinner while others pay for a nice vacation. Either way, having an endowed yearly meal or vacation can keep families together across the centuries. Ideally, there's even money budgeted for baby-sitters and child-friendly activities. Endowed family get-togethers can be a highly-effective tool for helping the family continue across the generations.

Write a family newsletter. In a geographically dispersed family, a newsletter can play a huge role in helping the family to maintain a strong and vibrant culture. Include in it interviews with the older family members or employees about the early days and some of the company's struggles. Maybe interview the matriarch or patriarch on such issues as why it's good to be public, or why our family should never wash its dirty linen in public, or why it's a terrible thing to be "addicted to being right." The newsletter can also help people catch up on family news – maybe someone became an Eagle Scout, got into the college of his or her choice, or got a promotion. It's also excellent for recording weddings, births, or in the case of an engaged couple, telling the story of how they met. Other topics for your newsletter can include what's going on in the company, including significant milestones. Make it short, ideally no longer than one or two pages. You want people to read it, and unfortunately, there's an inverse connection between how long it is and how many people will read it. If it's limited to one page, your family members are more likely to read it when they get it, as opposed to putting it aside for later and then never getting to it.

Get help if you need it. Fortunately, there's a whole new ecosystem of family advisors who can help. There's no such thing as a family business that doesn't have conflict, and when there's a serious family conflict, the pain from it can permeate every hour of every day. Not to mention that it can blow up the whole family, and with it the family business. So, just as you'd get medical help if you if you had alarming chest pains, don't put off getting professional help if a conflict in the family is getting out of hand. If you Google "family business advisors" you'll get more than 45,000 hits in half of a second. Or if you have a financial advisor, he or she is likely to be able to refer you to a professional trained in family business relationships.

Family harmony is so important, that anything you can do to nurture it is a wise investment. Many families don't stay intact over the generations. This is likely to happen when a family leaves its culture to chance. The good news is, planning is something you can do, and even better, the implementation can be enjoyable and fulfilling.

Family members need to learn that being a member of a family business sometimes requires sacrifice.

Dominik von Eynern: A working Family Governance needs Family Narratives

Dominik von Eynern

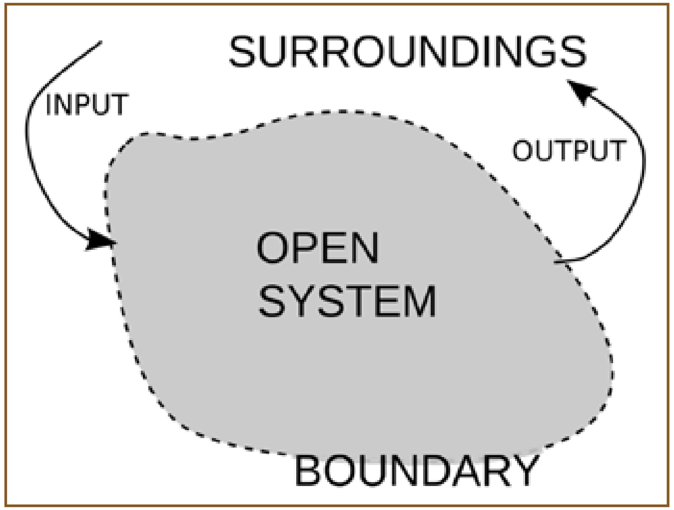
In our previous feature, Mitzi Perdue's first tip to build a lasting family business culture was "Know your family stories."

In this article, Dominik von Eynern, who comes from a business family now in its 5th generation, shares with us the latest academic insights and practical experience why **in order to make family governance effective and sustainable, we need to work holistically with our neurological structure, starting with family narratives** to embrace the past which informs the present and guides expectations about the future. Thus, **family constitutions should be embedded in the family narratives.**

Dominik von Eynern is a co-founder of Family Hippocampus, a peer-group network of multigenerational business family-members who have hands on experience with family dynamics. Family Hippocampus' mission is to maximize the advantages of the 'family effect' through learning, sharing and developing.

NARRATIVE EMBEDDED – FAMILY GOVERNANCE

Business Families – Dynamic Social Systems



Business Families are dynamic, cybernetic social systems on a macroscopic level, made up of inter-dependent individuals (oscillators) who are sub-systems on a microscopic level. Left to their own device, oscillators self-organize and create non-linear patterns of relationships through synergistic and antagonistic forces corresponding to various attractors. Families are open, dissipative systems, prone to frictions and shocks.

Trajectories of social systems are non-linear, path-dependent and irreversible in time. They change through shocks, i.e. tipping points (bifurcations) that initiate phase transitions, caused by transient, transformational endogenous events like marriage, death, successions creating a VUCA[1] environment, often in conjunction with exogenous shocks like economic crisis.

Transformation outcomes vary depending on the system's ability to self-regulate and to resynchronize. Is the shock causing merely some variation or fluctuation, or is it a major impact on the system, which causes it to collapse?

Rigid systems have no freedom degrees, they reached the limits of self-regulation and collapse into chaos. Rigidity relates to the notion 'this is the way we always have done it!'. In contrast, resilient systems have the optimal amount of freedom degrees, do not tip into chaos and change dynamically to become stronger as they *learn* from shocks. System resilience is essential for survival and can be created by *introducing specific* attractors that keep the system synchronized in VUCA situations.

Desynchronized: The Infamous 3rd Generation

The loss of socio-emotional and financial wealth of business families through system shocks is often observed, especially in the 3rd generation: the 1st generation builds the wealth, the 2nd generation is not really invested in, but they carry on regardless, trying to figure out how things work based on the information they snapped up. The following 3rd generation is mentally distanced, financially comfortable but do not really understand what it entailed to generate their financial well-being.

As they try to compensate the void, they may behave uncooperatively, overspend, exhibit entitled behaviours, jeopardize the good reputation of the family, initiate conflicts and tip the system into chaos. On top, the business may have to deal with economic crisis, but the 'traditional' ways fail to work. Thus, VUCA situations can desynchronize the system permanently!

Family governance introducing a common attractor synchronizes the system and can keep it synchronized. It reshapes behavioural patterns that promotes cooperation, responsibility and accountability, all attributes that are conducive to system resilience.

Family Constitutions

The traditional way to introduce common attractors are family constitutions. They manage expectations and synchronize the system through principles, rules and regulations. Effective synchronisation occurs, when *all* family members 'mentally own' the document and remember what they have undersigned. Anecdotal evidence suggests a low probability for family constitutions being mentally owned. The reasons are probably to be found in our neurology. To process, remember and apply the provisions laid out in the document, we need to employ our cognitive control network [CCN] and engage mainly our episodic memory, which holds structured information. But engaging the CCN and to manage episodic memories is laborious. Thus, family constitution become encyclopedic reference books and weak attractors.

Narrative Governance

The effects of narratives on social systems has been researched and shown to coordinate and synchronize our brains. The phenomenon is related to our mirror neuron system that underlies much of our social learning capacity. It is active in mutual understanding, imitation, empathy and promotes shared intentionality. Narratives are instrumental in the creation of our social identity and the oldest form of cultural transmission, so we are predisposed to process information delivered in the form of narratives! They evoke emotions and set emotional markers, which are essential for memory encoding and retrieval. Narratives are mostly held in our semantic memory section that holds unstructured information and is easily accessible in contrast to the episodic memory. Narratives are mainly processed in the default mode network [DMN] of our brains. It is active when we are not focusing on any specific task like in daydreaming and ex ante/ex post reflections e.g. about social processes.

Narratives are thus very strong attractors, the social glue of a social system that comes 'naturally' to us, unlike family constitutions.

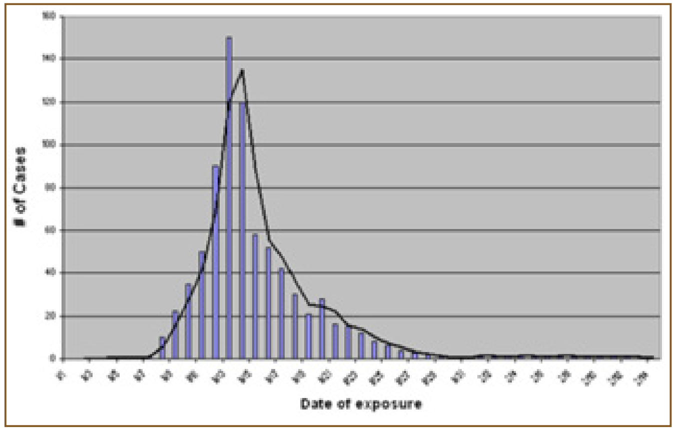
Narratives Drive Decisions

Narratives can act as frames and memes. The framing effect epitomizes the power of linguistic subtlety in regulating decision-making, experiences, evaluation, preferences and persuasiveness of messages[2]. Based on the invariance principal, the preferential choice between two options should be independent of their description. But we are predisposed to persistent decisional biases driven by frames. Experiments revealed that, choices between logically, two identical set of options depend on how the options are framed [3]. This is confirmed by meta-studies: the framing condition was the top choice predictor, just *followed* by the expected economic pay-off[4]. Research in neuro-marketing substantiates these findings further: the subjective consumption experience is guided by external cues. The beliefs of consumers about aspects of a product like quality, price, brand or packaging can influence the perception of the product itself (marketing placebo effect)[5]. Experiments with placebo pain killers showed, that probands stated preferences for the higher priced product, because it was perceived as more effective in killing pain, and neuroimaging studies with wine revealed preferences for the higher priced wine, as it elicited greater innervation of the reward circuitry compared to the lower price indication. The price is a cue, the anchor, a fragment of a narrative which triggers a script in the mind of the consumer. But these decisions are made outside conscious awareness. Social cognitions are also significantly influenced by narratives, especially when information is incomplete. Information gaps arise when primary contextual or social cues are absent or incongruent which poses a conflict situation. Narratives help to fill in the information-gaps, linguistically and affectively. This reduces ambiguities in social decision-making processes[6]. When we consider with whom we cooperate, we only have incomplete information about the contextual situation and the agent. We rely on a mix of the agents' reputation (i.e. narratives told by others about the cooperative behaviour of the agent) and *self-created narratives.*

The influence of narratives is significant, but not eternal!

Half-time of Narratives – an Epidemiological View

Like emotions, narratives are contagious, thanks to our mirror neuron network. The behavioural economist Robert Shiller describes in his book 'Narrative Economics'[7], how narratives drive economic events including booms and busts – again evidence for the power of narratives. He uses methods from epidemiology to understand the contagion rates of stories as the patterns of narrative epidemics mimic disease epidemics. For an epidemic to ensue, the infection - rate must exceed the recovery rate or death rate, until the process reverses as depicted below.



We process narratives context dependent, based on our qualia and underlying beliefs. Good narratives evoke emotions and are contagious, so that an increasing number of people believe in it until the trend reverses, and the majority believe in a different, more compelling narrative. Thus, the old narrative has lost relevance and its effect on (social) decision-making!

A lasting narrative must be kept relevant for *all* family members, so it can remain integrated in the current mental model of the world.

Keeping the Narrative Alive – Hermeneutics

Hermeneutics is the art of understanding and making sense of our social environment by integrating information in our personal mental model of the world. We integrate something unfamiliar into our familiar way of seeing things, seeing similarities in differences and enlarge our perspective by making new connections and meaning. Every story must be redacted, guided from traditions to make these connections, which requires imagination and dialogue. The absence of it leads to attrition or fundamentalism. Panta Rhei, every generation must have the possibility to connect to the old version and up-date the narrative with their experiences they make as current generation. Thus, every narrative if it should be kept effective, must be an open book that allows for co-evolution, co- interpretation and co-integration.

Inherited Narratives

Narratives demonstrate their power as social glue also based on genetic foundations as we inherit narratives that do not belong to us.

The structure of the genetic code for each person is fixed at conception, but the functioning of the genes (gene expression) is highly dynamic. Genes get tagged with chemical markers that suppress or accentuate gene expressions[8]. The reinterpretation or- change in gene expression is performed by individual psychoneurological structures in conjunction with external, contextual stimuli - such as narratives - and change patterns of thinking and feeling and hence, behaviours.

Research found evidence, that epigenetically altered gene expressions are partly passed on to following generations. Thus, our mental model of the world is created through neurally codified experience *and transgenerational, epigenetically modified neural structures.*

Co-Creating Narrative Governance

There are two interdependent, recursive co-creation processes in narrative governance. The fragments of a narrative must be identified, interpreted and subsequently integrated in a comprehensive, coherent representation in the gestalt of an epistolary novel[9]. Historical events are not easy to reconstruct, so incomplete information must be artfully completed by inferences based on facts.

Narrative Fragment Inventory [NFI]

The author must desk research and look for publicly available fragments of the family history before he or she conducts group- and individual interviews to elicit information about the family history from all family members across generations. Some fragments are easily accessible, others are buried deep inside their minds – some are consciously suppressed by social norms, some are unconsciously suppressed. Thus, the author should employ coaching technics to elicit information.

The Family Narrative

Based on the NFI, the author and the family artfully co-create a narrative which is more than the sum of its parts. The narrative is entertaining, provokes curiosity, suspense and surprise. To be remembered and mentally owned, it is an engaging, emotion provoking story that sets many emotional markers. Recipients are able to relate to and, identify with the protagonist e.g. the founder of the business. Recipients empathize with what h/she went through while creating the wealth.

After the family has ratified the co-created document, the narrative must be read, told and talked about by everyone in order to engram the desired psychoneurological pathways. Ideally, the narrative is ingrained in the subconscious, as it produces meta-cognitions and guides conscious behaviours. Yet, everything must be kept open for changes driven by system evolutions.

Conclusion

Family governance creates attractors that keep systems dynamically synchronized. Due to our neurological disposition, family constitutions alone are ineffective attractors because of their limited accessibility. In contrast, narratives are easy to remember and to associate with, as they are processed in different parts of our brains. To make family governance effective and sustainable, we need to *work holistically* with our neurological structure, starting with family narratives to embrace the past which informs the present and guides expectations about the future. Thus, family constitutions should be *embedded* in the family narratives. Furthermore, narratives have more freedom degrees than family constitutions.

The combination of both creates a balanced amount of freedom degrees, is easy to remember in daily life and specific enough, when push comes to shove. Combining both is the most effective way to make business family systems resilient for current and future generations.

[1] Volatility, Uncertainty, Complexity, Ambiguity

[2] Framing Effects: Behavioural Dynamics and Neural Basis, Xiao-Tian Wang, Lilin Rao, Hongming Zheng in Neuroeconomics, Springer

[3] Thinking Fast and Slow, Daniel Kahneman, Penguin

[4] Framing Effects: Behavioural Dynamics and Neural Basis, Xiao-Tian Wang, Lilli Rao, Hongming Zheng in Neuro Economics, Springer

[5] Consumer Neuroscience and Neuromarketing, Bernd Weber in Neuroeconomics, Springer

[6] Framing Effects: Behavioural Dynamics and Neural Basis, Xiao-Tian Wang, Lilli Rao, Hongming Zheng in Neuro Economics, Springer

[7] Narrative Economics, Robert J. Shiller, Princeton University Press

[8] The Student’s Guide to Cognitive Neuroscience, 4th Edition, Jamie Ward, Routledge

[9] Like Goethe’s ‘Sorrows of Young Werther (1775) or the satiric counter-version by Friedrichs Nicolai, ‘The Joy of Young Werther’ in the same year

Brendan O'Shannassy: The Family Wishes to Buy a Yacht

Brendan O'Shannassy

Captain Brendan O'Shannassy is the founder of KATANA MARITIME, providing independent advice to Yacht Owners and their representatives.

He began seafaring at 17 with a maritime cadetship with the Royal Australian Navy. He then served at sea with the Royal Australian Navy before undergoing commercial training and working in harbour tug, barge and offshore support in Northern Australia and South East Asia. He first entered yachting in the mid-'90s via Ocean racing and after completing all commercial studies returned in 2001. Brendan has worked with some of the industry's most reputable yachts including captaincy of Princess Mariana, Octopus, Vava II, Amadea and Ulysses/ Andromeda. Brendan is a licensed marine pilot, ISM auditor and conducted postgraduate studies in Maritime Law and accountancy.

"The Family wishes to buy a yacht!" *What does this mean to the Family Office?* Too often the thoughts and stories include:

I. Cost Over-runs,
II. Crew Issues, and
III. Endless complexity

This does not need be the case and yacht ownership can be a wonderful experience for the guests and a manageable asset from the perspective of the family office. At the same time, the family and the key decision makers should also know that a lot can go wrong when buying a (super) yacht, and spending

up to nine digit amounts or even more will not necessarily mean you'll end up with the right yacht for you.

To begin it is worth defining what the yachting industry is. In 2018 there were 4,802 superyachts in operation recorded in the world (30m+). Of these 84% were motor yachts and 16% were sailing yachts. Since 2013 annual growth in Yacht numbers has been 12.2%.

The main yacht owning nations are listed below. This list is accurate by number but there is no further breakdown by size of yachts against owning nationality. This would further adjust the list if it were possible to overlay.

1. 23.6% USA
2. 9.9% Russia
3. 6.8% Greece
4. 5.6% Italy
5. 5.3% UK
6. 5.0% Turkey
7. 3.7% UAE
8. 3.6% Saudi Arabia
9. 3.5% Germany
10. 2.1% Australia

Given the significant investment in capital and operating costs there is a question that is often at the forefront of the Family Office team. **Is Yacht Ownership and Yacht use really worth it?**

Yes.

A yachting experience is like no other. The guests are moved seamlessly through all stages of their travel to and from the yacht, there are no lines and crew handle all luggage and paperwork wherever possible. On boarding the yacht, the Captain will introduce the crew, there will be specialists to look after the guests, these will include but not be limited to:

I. Nurse
II. Swim Instructor (children)
III. Yoga (Vinyasa / Hatha / Relaxation)
IV. Personal Trainer
V. Spa
VI. Massage (Hot stone, Aromatherapy, Deep Tissue, Traditional Swedish, Balinese
VII. Make-up
VIII. Beauty & hair styling
IX. Watersports – instructors for all equipment.

These crew are for the guests sole benefit, there is no booking or wondering who else, within the limitations of rest they are available for the guests.

They will have access to a wide array of equipment, again this list is only a start, there is likely to be more:

JET SKIS - STAND UP JET SKIS
WAKEBOARD - WAKE-SURF - WATER-SKI – KNEEBOARD
JETSURF
FLYBOARD
E-FOIL BOARD
SEA-BOB WATER SCOOTER
SNORKELLING

SCUBA DIVING

Each day the yacht moves to a new destination, these are discussed with the Captain and will be optimised for both the weather and the uniqueness of the experience each location provides. It is private, the pace slows down to a 'yachting day' where meals, swimming and relaxation guide the time. Really, nothing else compares to this personalised experience.

Don't enter the "race to purchase"

The Yacht Ownership journey is best represented as a cycle. Too often there is a race to purchase but there are steps before this that are critical to a successful ownership. In many client meetings the conversation races very quickly, within the first 15 minutes, to questions such as: What size? Who should design it? Where should I build? And, If it is an existing yacht, what's available? It moves to how much? And, as they hold up a glossy brochure, what do you think about this yacht? **All exciting and understandable, but these are limiting questions and are the outputs of a process and not the foundation.**

The foundation is the **needs analysis** which can be easily described as the **Vision of the Yacht Owner** and it is essential. This is where with an independent advisor the future owner defines the priorities, these may include;

I. an exclusive destination to entertain key business relationships,
II. a platform to explore the most remote areas of the world,
III. a private area for an extended family to spend time together,
IV. a watersports and sun platform,

Do you want to have the family and grandchildren or is it just a couple enjoying their peace? Are you lovers of the seagoing voyage and want to roam far and wide, or just appreciate the privacy and peace that a yacht offers in an anchorage with only small moves?

Also, important, the number of guests 12 or less or, greater than 12, and speed vs. stability – there is always a trade-off. Recently, more owners are focusing on how do you feel about the environmental impact and how much are you willing to invest in balancing this?

Overlaid are such personal preferences such as stylish and intricate or relaxed and 'homestyle. Important sensitivities are of course Privacy and Security.

I have advised yacht owners at both ends of the above process and can say with 100% accuracy that **the more time spent on the why; the better the what, how and where become.**

A cautionary tale from wonderful yacht owners who bought a yacht that was very fast but rolled terribly, had enormous sun decks and small tenders for a large yacht that were stylish but uncovered. What they actually wanted was a stable yacht, with shaded areas, and covered tenders to get to shore without the weather interfering with them. These are the headlines they felt, but what was more significant over time was the fuel consumption and that the ship's waste management had not been updated and so they were restricted on entering many of their favourite areas.

How did this happen?

The would-be Yacht Owners went straight to asking a broker what was available and did not understand how the yacht that "needed to be sold" did or did not meet their needs. This is not a negative comment on the Yacht Brokerage community, rather the yacht owners were not able to communicate their vision to an extent that the broker could support them.

This situation would have been avoided if these yacht owners had have been counselled and distilled their vision into an Ownership Proposition. With this they would have been informed and able to filter any yachts that did not meet their clearly defined wishes.

The next step is finally to look at real yachts and begin market research. This remains a challenging process and requires guidance. This can be done directly, through an independent advisor or with help of a reputable broking agency.

There is a note of caution at this point as if the family office chooses to liaise directly there are some risks, so many websites list all major yachts on the market. Who is really the sales agent? I would recommend finding an established and referred brokerage firm to work with that have direct contact to sellers. I speak only with respect for the leading yacht brokers. Any successful broker has gained and held the trust of many High Net Worth clients. They will not waste this currency on one poor deal.

At this point and prior to commitment it is wise to have the costs modelled. **A five-year budget model** is appropriate as this will capture a paint cycle and full survey including dry docking. It may be galling but at this point you will see just how much the crew costs. Salary, insurance, food, uniform, repatriation flights. *Annual maintenance may look reasonable but overlay a full paint and the reasonable wear and tear over a 5-year cycle it will look significantly different.*

It is beyond the scope of this article to go into more detail on operating budgets, but if there is one thing only that I implore a yacht-purchaser is to gain this model from an informed and unbiased advisor who has taken the time to develop the model based on your yacht and how you intend to use it.

After this model process is the acquisition phase. There is always excitement and time pressure as the new yacht owner wishes to make their dream a reality. *Challenging as it may seem, this is a very dangerous time to rush as the basic surveys do not tell you the yacht is truly in order; they just tell you it is maintained and safe to go to sea.*

Compliance surveys do not look at crew turnover, documentation, efficiency of administration and the existing management structure. Without these being inspected the chances of a negative experience escalate. Again, the successful owner and family office seeks guidance by an independent specialist in these areas.

The risk of this was brought to me on taking over Captaincy of a +100m yacht on behalf of the new yacht owner. I was not involved in the purchase and beyond what was available in the public domain had no knowledge of the yacht. I joined and realized that the crew had been given mixed stories during the sale and over 80% were in the last stages of departure. One had departed after poor treatment from previous management and had cleared the yacht's servers of essential information. The certificates were in order but there was no maintenance standards, service and housekeeping procedures or guest training. It took 12 months to turn this around and I still wonder what remained missing that we did not find? A knowledgeable inspection prior to purchase would have learnt this and removed many of the problems.

Following the steps described, this situation can be avoided and the Yacht Owner can begin an enjoyable yacht ownership experience and the family office can relax in at least knowing the first stage is complete. The family has the correct yacht and the family office can return to the to their normal work.

Tobias Prestel: 50 Shades of Family Offices

Tobias Prestel

Tobias Prestel is Founding Partner, Managing Director of Prestel and Partner Ltd. He has over 40 years international experience as an Entrepreneur, Publisher and Conference Director.

An interview with Tobias Prestel on Family Office secrets

Matthias Knab: Tobias, it has been ten years since you and your business partner Katja Muelheim have been organizing Family Office events globally. Each event sees over 100 Family Offices in New York City, London, Zurich, Dubai, Singapore and Wiesbaden near Frankfurt in Germany. I had the opportunity to attend your conferences in all these locations and appreciate the quality of your events.

So, throughout the year you are in contact with family offices globally. From your perspective, what are the common themes of family offices across those places, around the globe?

Tobias Prestel: It's complex and fascinating. What do the family offices, wealth owners and family members who attend our events, have in common? For one, an interest in certain content. The interest on the investment side in private equity, real estate, impact & ESG investments is global. Tech and life sciences are key matters, as you are also covering it with your videos and your family office magazine. Other relevant topics include hedge funds, where you are a global intelligence leader, Matthias. A general theme we look into a lot (and more than others who only chase money) is family topics like family governance; solving challenges such as succession planning or family structures.

My favorite subject, due to global interest of our audience (and my own): Making money while doing good. We all can help to change for the better, while achieving a good return. Climate change for example is a great investment theme where huge returns are being made, and lots of impact investments help people and our planet while generating great financial results. A win-win!

Matthias Knab: Speaking about challenges, what would you say is your own challenge when it comes to creating family office events?

Tobias Prestel: To keep our promise, as we have been for ten years, which is having many more genuine Family Offices, wealth owners and family members attending our conferences than solution providers. And here is the challenge for us, there are so many different kinds of family offices, the bandwidth goes from say a single high net-worth investor to an entire investment bank - which is where we do not agree. Not all who call themselves a family office, are so in our eyes.

Matthias Knab: Like the 50 shades of family offices?

Tobias Prestel: Correct, there are so many different kinds of family offices as you can have many shades between white and black. When dealing with those entities, you need to make the correct differentiations.

Matthias Knab: So how do you differentiate between those 50 shades of family offices?

Tobias Prestel: The key differentiation is: there are those trying to sell you something, and those who are buying.

Another key question is, do you just look after your own family, or do you chase more families to join your operation?

Why are these distinctions important? Well, when it comes to our events, which, let me remind you, aren't virtual but physical meetings, this makes the difference of meeting a peer, or meeting somebody who offers you something. Our job is to make sure that at our events, you meet many more people who are peers than people offering you something. And, again, this is a promise we have been keeping for over 10 years.

Matthias Knab: How do you actually go about making this differentiation in practical terms when you look at family offices?

Tobias Prestel: We judge by activity - not by wealth or fame.

For example, there are genuine Arabian Royals, truly wealthy and also great people, running offices where they "help others to do business in Arabia, and to co-invest". In other words, they sell a service. But they call that entity a Family Office, and people get blinded by the big names behind. So what we do, we don't look at wealth and fame, we really zoom in and try to understand the activity. In this case, the activity is being a solution provider, and that's where we put them, not on the buy side as others would and do, unfortunately.

Matthias Knab: Please give us more examples.

Tobias Prestel: I had several phone calls in the past from business development executives of Fidelity, and Guggenheim Partners, two very well respected and huge firms with amazing people and great products. They don't call me by accident, but regularly and ask for free tickets to our events, because they are a family office... Their position is that they are a family office, because they are owned by a family! I don't agree because when your activity is to sell funds and wealth management, then you are a solution provider to me, no matter who is the owner, and how wealthy.

Most banks have a dedicated department looking after UHNWI clients. They themselves call these departments family office. I call these a bank department offering anybody a solution who wants it and can afford it....

You would be surprised how many solution providers looking for clients (the more the better) call themselves a family office. And, as you can imagine, that is also a condition that particularly family office principals and family members have developed a high sensitivity for. We try to minimize, as much as we can, their concern of "what am I being sold now?" We differentiate, to make sure our events are not a sales show.

Matthias Knab: That sounds logical, to look at people's activity. So once you judge that activity, that's it?

Tobias Prestel: Matthias, you coined the term 50 shades and you are right, it is complicated and complex. How do you judge a genuine private single family office, which enjoys sharing great deals they find, with other family offices, without a commercial interest? Where is the fence between buy side and sell side? It is opaque and a private world, it is not easy to see if someone is offering co-investments only sometimes, or all the time as a solution provider and as a business model. And when you ask: I am always surprised how much one who chooses so, can stretch language, to create opaque smoke bombs…….

Matthias Knab: Your examples are entertaining, can you give us some more?

Tobias Prestel: Well, here is another one. One of the world's richest family has a family charter that says if you appear in the media with an interview, or if you go onto any stage in public, you lose everything you have! No surprise nothing is known about these family members – they prefer privacy over losing it all. And that is a general tendency: Most pure private investors and family members have no desire or reason to promote themselves. They have nothing to sell, why should they? This is why we are so grateful to all those sharing their expertise and experience with peers at our private events, even though there is zero commercial aspect for them. "Only" the joy of exchanging views and opinions with peers, and being inspired.

Another example of this **opaque space** without specific definitions: There is a family office conference organizer claiming to be a family office himself. Funny fact: There is no substantial money, no family history, no family business, only fake claims. How is this possible? As I mentioned, many private large wealth owners appreciate total privacy, which means you find nothing online about them. As a consequence, if there is no data, no background whatsoever about someone to be found online, this can then be also taken as a good sign. *However, this very same dynamic is then also skillfully exploited by some. In such a scheme they only need to make sure there is nothing about their history online, and then be brave enough to pretend and claim things, invent a "family story", and show themself around good people - preferably with pictures taken as some sort of proof, to gain credibility. Beware.*

Matthias Knab: I know exactly who you are talking about. However, if you really dig into the person and these claims, it is possible to find out the truth. Usually, genuine family offices have significant experience and resources to do due diligence – and an excellent sixth sense to spot if something just isn't right – and quite a few contacted me and shared their findings which were exactly as you described.

So, what do you suggest if someone wants to go to an event to meet genuine family offices and wealth owners, to meet those who are not only trying to sell you something?

Tobias Prestel: To avoid the famous "room full of barbers trying to sell each other a haircut", just spend a little time online: Look at the speakers for a start. Don't be impressed by big names, instead try to find out their motivation by looking at their activity. Are these trying to sell you something, are they commercial? Or are they private?

Also look at the sponsors: If you find big names with good reputation, that's generally a good sign. If the sponsors are mostly unknown names, you can assume the organiser's motivation is only making money by taking small funds for a paid-for ride.

Next, read the program: Is this knowledge and expertise, or are there upfront pitches, maybe even one-on-one meetings? Which genuine investor goes to such pitches? I think as many, as the most beautiful girls in town go to speed dating – it just doesn't happen, normally.

Then make your own decision if you want to go to a deal flow event where you get pitched, or if you want to meet genuine family office peers who are usually not happy to be pitched at events.

Genuine private family offices go to events to a) meet peers and b) to learn something, to get inspiration. As a solution provider, you meet them through your expertise - not through a hard pitch like in the institutional world.

Matthias Knab: Going back to the 50 shades, we learned you judge by activity, buying or selling. Can you differentiate a bit more for us what shades do you see, like are there any categories?

Tobias Prestel: We like to say there are private family offices, and there are commercial ones. Private family offices have different shades, some also offer co-investments for example, but offering others something is not their main activity.

A private multi family office in our eyes is defined by looking after a set certain number of always the same families only. As soon as you open up to more and more external families, once you are a commercial multi family office, where is the difference to a commercial wealth- / asset-manager? Maybe the question of in-house or external money management? Still, you hunt clients.

An advisor looking after several families, allocating assets to different providers depending on each client's individual needs, can make lots of sense. If these MFO advisors look for more clients than those they already have, then they are however a solution provider. Which is nothing bad, only something we need to be aware of, especially in the light of our promise to have more wealth side in the room at our events than providers.

Matthias Knab: What else do you recommend to judge an entity calling itself a family office?

Tobias Prestel: Apart from looking at their activity, spend some time online. For example Google/Bing or use the highly recommended non-for-profit foundation's search enging ecosia.org, also LinkedIn is a powerful source. But at the end of the day, nothing, no Zoom or phone call replaces a personal meeting.

This, by the way, is also what we hear from family offices who continue to invest during the pandemic: they continue working with people they have physically met before. That doesn't mean they are not starting to build new relationships in the virtual world.

But before putting some larger amounts of money to work, the physical relationship is still foundational. We humans all have a special sense which only works face to face, and this for us is another reason we love our real events with real people in real locations.

Recommended Follow Up Reading:

The Potential for Fraud Caused by the Unnecessary Mystery of the Family Office World

10 Points to Check Before Working for a Billionaire Family Office

Fake Family Office Head's 'Charade' Bilked Investors

Macquarie 'fake family office' creator banned

Virtual Due Diligence: A New Paradigm, Same Hard Work

Amy B. Hirsch

Amy B. Hirsch has 40 years' experience in alternative investments. As CEO of Paradigm, she currently provides a range of services to institutions, investment managers, corporations, and family offices. She also provides expert witness services to a number of law firms involved in alternative investment / hedge fund related litigation.

Ms. Hirsch has extensive experience in Alternative Investments & Hedge Funds including; asset management, due diligence, marketing, and operations. She has been responsible for managing in excess of one billion dollars of hedge fund-of-fund products on behalf of pension plans and institutions, and has conducted operational and investment due diligence on hundreds of alternative investment firms. She has co-managed a litigation finance firm and is well versed in lending practices. Her primary expert witness sub-specialties include due diligence on all types of hedge funds, alternative investment operations, fund risk management, and portfolio management.

She started her career in Operations at Merrill Lynch in 1980, advancing to Vice President of Trading Services for ML Futures Investment Partners. Ms. Hirsch was then Senior Vice President, of the Managed Futures Group at Smith Barney. She then joined Link Strategic Investments as Chief Operating Officer prior to becoming one of the four partners that launched Paradigm LDC. Ms. Hirsch has been sole owner and CEO of Paradigm Consulting Services, LLC since 1996. Ms. Hirsch holds a B.S., cum laude, in Economics from Fordham University. She has been registered with the NFA as an Associated Person since 1986.

'Trust, but verify' is the holy grail of investment due diligence. As a due diligence expert, this has meant a lot of planes, trains, automobiles, and hotels over many years. At its core, manager due diligence takes a tremendous amount of effort during normal times, and these are certainly not normal times. Our approach must change, yet it is imperative that we maintain the quality of our due diligence. In a world where travel has become near impossible, we must adapt and change to achieve this goal.

There is sudden fear in the investment community due to the pandemic; a misguided desire to only reinvest with existing managers in their portfolio, because virtual due diligence on a new manager is too hard. This is leading to over concentration and potentially, additional manager correlation. Yes, it is more difficult, but not so difficult that you should not expand your manager bench.

Prime brokers and others have risen to the challenge and created virtual manager conferences. These can be your introduction to a new manager. So, how do we as investors adjust our approach?

Typically, due diligence involves a visit to the manager's office; meetings with the portfolio manager, analysts, and operations personnel. It includes an on-site review of portfolios and systems, and it gives you a sense of the firm culture. You walk around a firm to get some insight into inter-personal relationships and individual personalities. After all, these people are managing your money, so we need to pay attention to them.

Investors all want to discuss the manager's views, the portfolio, and their approach in the current market cycle. There is a desire to dive straight into the performance record and ask about certain specific periods of performance. That is the sexy part of due diligence. Now, more than ever, investors must spend more time on other aspects of the firm.

I have conducted due diligence on many hundreds of managers ranging from new launches to established, multi-billion dollar funds across all types of strategies. I have successfully avoided every fraud. Am I smarter than anyone else? No. I just do the hard work, and ask questions. I was once conducting due diligence on a 'fund' in Australia and I asked to see the audited financials. The manager responded that there were none, as it was not a fund structure.

The marketing material he had been sending around that said "The xxx Fund" in the header was actually a combination of a small managed account and a hypothetical track record based on a 'similar' strategy. Do not assume that what you are reading is real. Ask for proof.

Read the footnotes of every audit and performance record. Take nothing for granted.

The recent Coggins fraud in Miami was avoidable. The SEC complaint against David Coggins stated that "Coggins lied to investors about how well their investments were performing, the amount of assets he was managing, how he planned to invest the Fund's assets, and his experience managing investments. He also created and sent fake audit opinions to third parties and investors and falsified brokerage records and investor account statements."

Earlier I said that the first rule of due diligence is trust but verify. Reference checks can save your portfolio and career. Don't just call the references you are given. Use on-line tools to find other connections. Call the brokers, call the auditors, call former employers, and call the administrator. At the very least, the auditor can confirm if they are even the auditor for the fund.

So many of these reference checks have stopped the due diligence in their tracks. Coggins should never have been able to raise money. If investors had verified his experience and found out he was lying, or had called the 'auditor' and found out the reports were fake, it would have ended there.

Positive reference checks are just as important to continue due diligence and lead you to find great managers starting their own firms. We have had success in allocating to new managers such as Larry Robbins at Glenview or Pat McMahon at MKP to name a few. Their references led us to finish all due diligence and invest with them early on.

Perhaps the biggest mistake that investors make is to invest without truly understanding what they are investing in and by refusing to hire a professional. They do not want to pay the annual fee to avoid losing millions. I never understood this. In 2003, if you were going to place $10 million with Madoff and I stopped you, how much is that worth? The simple answer is $10 million.

So now, we have an added due diligence hurdle called the virtual world.

In the current environment, on-site visits have been replaced by Zoom meetings, conference calls, and on-line posts. In order to make the most of these communications, investors must prepare ahead of time, now more than ever. Request the following documents prior to any call:

- Firm presentation
- Audited financials
- Track record
- Organizational chart and background of staff
- Prior letters to investors
- FAQ and DDQ prepared by the firm
- PPM or Offshore offering memorandum

As you review the documents, prepare your key questions to be respectful of the manager's time and to make the meeting more productive for both of you. This is recommended for on-site meetings as well.

If you are going to have a Zoom or other video call, ask that the head of Operations and Finance join as well. Split the meeting so an analyst can join. Ask for time with a member of the operations / finance department to review security protocols and firm-wide permissions.

Request the head of Operations to show you the portfolio tracking and risk management systems via a shared screen. Ask to see the system for tracking insider trading and other compliance or regulatory requirements.

Ask about morale, changes to the organization, plans to re-enter the office, disaster recovery. Discuss what was learned as they transitioned from an office to a virtual environment, and more importantly, what did they do to implement necessary changes. Ask staff how the portfolio managers are doing; how are they coping with the additional stress, what is the level of excitement?

Another key issue is **offsite employee and system risk protocols,** of which a few are:

- How many staff are working from home?
- Are they using Firm hardware or personal hardware?
- If they use a laptop, is it physically secured?
- What software security protections are in place?
- What smart phone security protocols are in place?
- Is there additional security at each home?
- Is the VPN secured with additional passwords?
- Are they allowed to run on the same network as their home?

These are just some of the things we must do in the current environment.

One positive note is that due diligence has been made easier in that calls can be recorded and details that would normally be forgotten can now make it into the due diligence report. Instead of focusing on writing every word that is said, you can listen. This is where the best analysts and investors shine, they truly listen. It enables one to focus and ask material follow-up questions.

After you assimilate all your information, make time to schedule a follow-up to review any scenarios that were discussed and whether they achieved the desired result. These can be positions, operational changes, new personnel, any protocol changes, etc...

Take the time to Zoom, call, or FaceTime to find the next great manager. The players may change, the strategies evolve, but due diligence has always required hard work and common sense. If it seems too good to be true, it probably is.

To misquote Madonna, we are living in a virtual world, and I am now a virtual girl.

Rolf Dreiseidler: Winners and Losers of the Pandemic

Rolf Dreiseidler

Rolf Dreiseidler is a Managing Partner of POLARIS Investment Advisory. Rolf has also been Co-Chairman of the German Alternative Investment Association (BAI) for over ten years. POLARIS operates out of Zurich and London, focusing exclusively on Alternative Investments. As one of the most successful placement agents serving global GPs targeting European Institutional Investors, Rolf and his colleagues have first-hand witnessed how the COVID-19 pandemic has changed the investment and fundraising business and who comes out as a winner of this.

Matthias Knab: Rolf, from your perspective as a promoter of global funds to European institutions, who are the winners and losers of the pandemic when it comes to fund raising?

Rolf Dreiseidler: Allow me to start where things are on our end: I actually believe that 2020 is going to be one POLARIS' best years ever. How is this possible? Well, it's a combination of things that played out in our favor. Clearly, most if not all of the tickets that came in Q1 and Q2 2020 were on the back of a lot of work that we had done in 2019 already. When the lockdown was initiated and LPs were neither able to travel nor to meet GPs in their offices, the investors' focus was put on those asset managers that they have met before and that they have already done some Due Diligence (DD) work on. In some instances COVID-19 really accelerated the DD processes and decision making due to the uncertainty about the duration of the lockdown. LPs really wanted to get these deals done. What also helped us a lot is the outstanding quality and the differentiated strategies of the asset managers we currently work with that resonate very well with our investor base.

For example, a few years ago we have realized that **LPs are in general underweight Asia in their Private Equity programs.** However taking into consideration how economic growth has shifted over the past decade as well as how institutionalized Asian Private Equity has become during that time period, we felt that there is a gap to be filled. We had – and still have – the honor to partner with the leading pan-Asian Private Equity Fund of Fund to address this gap. This GP has delivered outstanding performance over all vintages and we are seeing an enormous demand from institutional investors all over Europe – even from those that typically pick Private Equity Single Funds themselves.

On top of this, we continue to see demand for solutions in corporate direct lending as well as infrastructure at the lower end of the risk/return spectrum.

Matthias Knab: This sounds great, but I wonder, is it all that rosy? And what about the challenges LPs are facing now?

Rolf Dreiseidler: You are right, there are also quite a few investors that have put their investment programs on hold since the lockdowns were introduced and markets corrected. Reasons included the lack of risk budgets due to losses in public market investments, restrictions to travel and therewith to conduct onsite Due Diligence or simply to allow for time to analyze and re-assess the developments and attractiveness of certain asset classes. This clearly put the brakes on a lot of fundraises with first closes being postponed, fundraising periods extended, etc.

Furthermore, for those investors that continued investing, the focus shifted even more to existing relationships. There has been a general trend over the past few years to sort of limit the GP-relationships due to the workload involved when approving a new GP vs. investing into a new program of a GP that the investor has previously invested with. Due to limitations to travel and therewith to conduct proper onsite Due Diligence this trend has even strengthened. This is clearly not a positive for fundraising with GPs not yet established in the market.

Matthias Knab: From your experience, are all Alternative Investment segments affected by this the same way or do you notice differences?

Rolf Dreiseidler: *Our observations are that **Private Equity was least affected**, i.e. in general investors rather tried to continue their investment programs as for most of them PE has been the major source of outperformance over the past decade. However, there was a clear differentiation depending on how progressed the respective fundraise was. Those GPs that were rather at the end phase of their fundraising period had difficulties in getting to their target fund size. Reason being was that those managers typically have already made some "pre-Corona investments". Investors clearly moved from a "I want to see some deals in the portfolio first" - to a "I want a fresh portfolio"-mentality, fearing that pre-Corona deals were overpriced in the new environment.*

*This, by the way, holds true for **Private Debt and Infrastructure** as well. In Private Debt we also saw that investors put their "plain vanilla" corporate direct lending programs on hold to give preference to opportunistic credit funds that seek to profit from market dislocations that started to appear in late February. Finally after many years of economic growth during which a lot of Direct Lending Funds emerged, investors wanted to see if the funds hold up to their promises in turbulent times.*

Matthias Knab: And, did these funds hold up to their promises?

Rolf Dreiseidler: It might be a little too early to tell. However, the GPs we work with in that space were chosen based on their "safety-first"-philosophy, i.e. not compromising risk for higher returns. These managers showed zero to very low single digit losses for Q1 and already a recovery for Q2, so exactly in line with expectations or even exceeding expectations so far. However, in general, I expect a significant dispersion in performance to become visible in the market over the next quarters to come that will "separate the wheat from the chaff".

Matthias Knab: How about infrastructure and also liquid Alternative Investments/Hedge Funds?

Rolf Dreiseidler: Infrastructure fundraises in general suffered a bit as well as investors started questioning the attractiveness and pricings of certain infrastructure assets including airports, harbors, toll roads etc given the potential longer-term implications of COVID-19.

As always, there are some remarkable exceptions, but generally speaking, Liquid Alternatives unfortunately have (again) not lived up to expectations during the market frictions in which they were supposed to protect the capital of their investors. It has become a very tough case for investors and consequently for fundraisers alike. With the exception of one equity long short manager, who has delivered Top 10% Performance and Sharpe Ratio over each of a 1- to 10-years rolling time period and with whom we have successfully worked together for a few years, we have taken the strategic decision to not cover the Liquid Alternatives space anymore.

Matthias Knab: In which areas do you see potential going forward so that you would be keen to add new GPs to your offering?

Rolf Dreiseidler: As a general theme we are strong believers in mid-market/lower mid-market opportunities since the larger end of the markets has been swamped by capital over the past few years. This in our view will unavoidably lead to negative implications for future performance potential. So within this lower range of the markets, we are always keen to look at Private Equity-, Infrastructure- and Private Debt-GPs that have a clear edge and a proven track record in transforming this edge into a strong performance for their investors.

Additionally, differentiation is becoming more and more of a key theme for us and our LPs. When investors started their Private Markets programs it was necessary and sufficient to have a strong pedigree and track record. Nowadays, this is still necessary but investors want to see real diversification, different sources of return to what they already have.

Imagine you already have say 15 GP relationships in US mid-market buyout. What is the value add of adding No. 16? How different can this return stream be to what you already have in your portfolio? To offer such “true diversification”, we recently partnered with a Pan-European Growth Tech Manager which focuses on B2B deep tech soft- and hardware, i.e. chips. Moving from buyout to growth already gives you very different risk-return characteristics, for example growth stage companies hardly carry any debt on their balance sheet, which is very different to buyout and can be an important factor in an economic downturn. Finally, deep tech drives our world nowadays, so we have seen strong growth of such companies and numerous deal activities in Q1 & Q2 of this year whilst buyout got under pressure all over the place.

Matthias Knab: Where else would you see growth?

Rolf Dreiseidler: Impact investing in our eyes is one of the key themes driving this decade. So we are looking for GPs that have a true focus on the ecological transition with an impact-investing-DNA; and not just a nice ESG marketing brochure. For example, we are currently negotiating a cooperation with an European leader in sustainable investments with a focus on themes like renewable energy production, energy efficiency projects and sustainable city infrastructure.

Furthermore we doing a lot of research in the field of what we call **“Niche Alternatives”** or “Alternatives beyond Mainstream” and we will shortly release a book on this with our insights. The idea here is that the universe of

Alternative Investments is much broader then a lot of investors are currently aware of. Typically these are areas that are not (yet) flooded with capital and that offer an outstanding potential for outperformance whilst delivering a totally uncorrelated return stream. Examples for this include music royalties, litigation financing, reg cap strategies, GP Stakes and digital assets.

Matthias Knab: That sounds quite appealing but what should investors do with this? How can this be implemented?

Rolf Dreiseidler: Investors could consider a "Core-Satellite" approach to Alternative Investing. The core within such a framework consists of the major Alternative Investment categories like Private Equity, Infrastructure, Private Debt. This could then be complemented by Satellites, which in essence form a diversified bucket of such "Niche Alternatives" with the overall goal to increase performance and diversification of the AI bucket.

Matthias Knab: What other challenges do you see for LPs and GPs in the current environment?

Rolf Dreiseidler: There will be challenges ahead for both LPs and GPs alike, which of course will consequently affect the middle-men, i.e. marketers. Many LPs plan their upcoming alternative investments around a year ahead. So, as mentioned earlier, a lot of investments that are taking place now, go back to introductions and meetings that happened in 2019 and sometimes even earlier when both LPs and GPs alike were unrestricted in travel and able to meet each other at the domicile of the investor and the asset manager.

Let's not forget that for most investors their investment guidelines require them to meet the asset manager physically. Under the assumption that traveling will continue to be restricted for quite some time to come, LPs will eventually have worked off their pipeline anytime soon. From this point there are different paths: Either LPs will suspend their private markets programs for a while, maybe also on the back that they might not see the same level of cash returned to them from exits as before. Or they could continue with their programs but "raise the quality bar" for new investments and intensifying the Due Diligence in "non-physical"-areas.

Matthias Knab: What do you mean by intensifying the Due Diligence in "non-physical"-areas?

Rolf Dreiseidler: Let's say an LP had the requirement to do three reference calls with other LPs as part of the Due Diligence. This number could for example be doubled to six reference calls, and/or it could be extended by not just calling other LPs for an opinion but say in the case of Private Equity, having references calls with C-level executives of portfolio companies of the GP.

In the Due Diligence of a sponsored Corporate Private Debt GP, the LP could do additional reference calls with the Private Equity sponsors to get more color on the quality of the debt manager etc.

Matthias Knab: Understood, what else is there to say about fundraising during the pandemic?

Rolf Dreiseidler: It has always been easier for the larger groups to raise assets. I believe that with the implications from COVID-19 this will be the case even more so – whilst fundraising for the smaller asset managers is going to get increasingly difficult. This will mean that such **smaller GPs will have to**

put even more efforts into their fundraising, e.g. by broadening their regional reach-out and within regions by hardly leaving any stone unturned.

Matthias Knab: But smaller groups also have much smaller sales and relationship management teams than the larger groups, so how should they cope with this challenge?

Rolf Dreiseidler: Well, they should consider partnering with placement agents like ourselves, i.e. groups that have a demonstrable longstanding and deep network as well as a strong asset raising track-record in the markets that they cover. Such a partnership can leverage the sales capabilities of the GP by multiples.

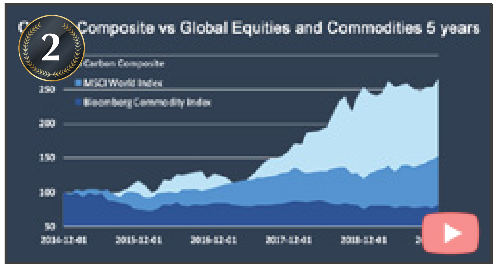
The other thing GPs can do is **leveraging of platforms** such as yours at Opalesque and not only produce digital content such as videos but also gain visibility with your help. We also found that well designed webinars produced with a professional partner allows to tap into a new investor base and can be extremely helpful, particularly now when it has become very hard to start a dialogue with new prospects.

Matthias Knab: Final question: what advise would you give to GPs on how to find the right placement agent in the current environment?

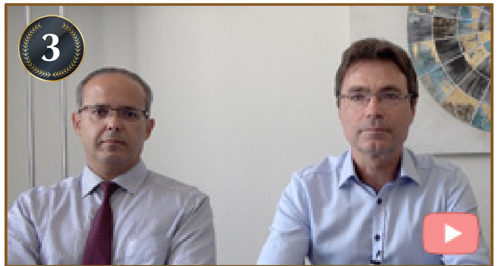
Rolf Dreiseidler: *Let me start by saying that the idea of just having one placement agent (PA) partner that covers the globe for you is surely tempting as it reduces the onboarding efforts like contract negotiations etc. significantly. However, I personally doubt that there is a single global PA out there that is top notch everywhere. So instead, I would rather suggest to look for regional specialists that are very dedicated in the markets that they cover and that have a proven track record of raising assets there.* Such a group should be passionate about what they do, hungry to contribute to a successful fundraise, and very importantly: as a GP you should make sure that such group is willing to dedicate significant time to your fundraise. You don't want to end at the lower end of a priority list of say 30 other fundraises supported by the PA at the same time.

Furthermore, watch out for overpromising, especially when the PA is asking for a retainer at the same time. Don't get me wrong here, a retainer might be justified in certain cases but it has to be for the right reasons. Do reference calls with GPs that the PA has worked with previously, get to know the team and not just the lead partner. Finally, ask yourself if you feel comfortable to work with these people both from a professional but also on a personal level. It is very important that GP and PA form a good team that enjoys working together as this will reflect positively on the investors. This, by the way, should work vice versa as well. We at POLARIS had quite a few cases in the past, where we decided to reject a GP because we felt that we don't share the same values or are not a good fit for the GP.

Most watched Recent Opalesque.TV Videos: Legends & Leaders



Climate Change and Carbon as a Liquid Asset Class

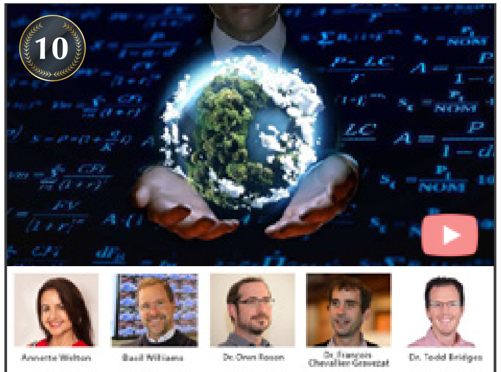


MoSAIQ aims to generate double-digit average yearly returns with no negative years.

RETHINKING MANAGER SELECTION: SKILL OR LUCK?

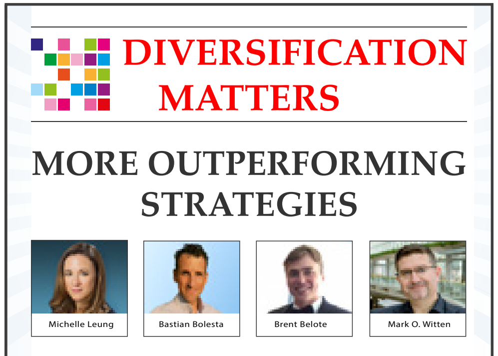
Investor Workshop: The Keys to Asymmetric Returns

COVID-19 Survival Training for Family Businesses



How Quants Achieve Material Improvements in ESG Investment Performance

Fixed Income Alternatives Strategies



Register Now (free)

Most Downloaded Recent Opalesque Roundtables: In-Depth Analysis & Updates

1

Opalesque 2020 Bahamas Roundtable

NEW BAHAMAS REGULATORY INITIATIVES FIND INTERNATIONAL TRACTION WHILE UHNW RESORT TO THE ARCHIPELAGO TO WAIT OUT THE PANDEMIC

Well before the Second World War, The Bahamas was already seen as a desirable place for persons with wealth to come and live. The Bahamas' financial services industry didn't come first: what really came first were those persons of mobile capital and being able to afford to live at a place of their choosing. Almost 100 years later, the country is very mature in having maintained and expanded its financial services infrastructure, while, of course, still being an obvious place for persons choosing to relocate for many reasons, whether it be the expertise offered to support wealth management, climate, lifestyle or just simply the location. The Bahamas is in close proximity to major centers around the world and midway between Latin America and North America. Insiders report a steady influx of family offices setting up in The Bahamas.

2

Opalesque 2020 Investor Roundtable

HOW LEADING GLOBAL INVESTORS PLAN, MANAGE AND ALLOCATE IN TIMES OF COVID-19

The S&P 500 has now rallied +41% in ten weeks. This rally is greater in percent terms than the -36% plunge that took place in 5 weeks and has taken place during some of the worst reported economic data in US history.

Looking back, there are of course many differences to the other two big financial crises of the past 20 years, but one of the most striking to me is the increase in velocity. *The dotcom crash unfolded in March 2000 and lasted for 929 days with equities losing 48.6% in aggregate. This corresponds to a 1.6% average loss per month. The Financial Crisis of 2007-2008 went on for 517 days at a 55.2% loss. The average losses per month were 3.2%, so twice as fast as the previous one. This time around with the coronavirus led meltdown, the losses happening in just one month, which is 20 times faster than the dotcom crash and 10 times faster than the financial crisis of 2008.*

Document Disclosure

PUBLISHER

Matthias Knab - knab@opalesque.com

EDITORS

Benedicte Gravrand - gravrand@opalesque.com

Bailey McCann - mccann@opalesque.com

Contact: Opalesque Global Services LLC
244 Fifth Avenue Suite # G268
New York, NY 10001
U.S.A.

Download past Horizons issues from the online archive: https://www.opalesque.com/archive-horizons.html

Get your Free Subscription: https://www.opalesque.com/subscribe-horizons.html

Subscription Support: support@opalesque.com