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Opalesque Roundtable Series '20

INVESTOR ROUNDTABLE

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Editor's Note

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 happened in just one month, which is 20 times faster than the dotcom crash and 10 times faster than the financial crisis of 2008.*

We all have experienced first hand how the COVID-19 pandemic has fundamentally affected how we live, do business, and invest. This Opalesque Investor Roundtable, sponsored by Weaver, is looking at **how leading investors experience these events in 2020 and how they react to it.** Of course, at some point, we'll see a recovery from the global economic impact of this coronavirus, but the world will have changed with *a new normal emerging – but how will that look like?*

The future is here

The long-term impact of the 2020 pandemic is going to be the dramatic acceleration of people thinking long-term and starting to really bring about a different future. Think back to January and ask yourself whether you could have conceived any way at all to get the entire world – in 30 days – to start using Zoom for business meetings or deal with almost all commercial airplanes being grounded. You couldn't have figured out a way to do it. But now, all of a sudden, it's here.

After the 1918 pandemic we had the roaring 20s. Will we be entering something similar, or maybe a cross between what happened in Japan in the 90s: A time with more innovation, more art, more science?

Hear from:

1. **Peter Fletcher,** Managing Director, PHF Capital; Founder & Chairman, Club b
2. **David S. Rose,** Managing Partner, Rose Tech Ventures; CEO, Gust
3. **Lisa Head,** Partner-in-Charge, Investment Fund Tax Services, Weaver
4. **Cedric Kohler,** Head of Advisory, Fundana
5. **Christopher Beres,** Vice President, Investment Oversight, Nuveen

Insights about:

- Which **structural instabilities** "baked in to the market, but not readily apparent" is the current crisis revealing now? (page 12-13, 22)
- How and why a large hedge fund investor managed to go through this crisis relatively serenely (page 7,8)
- **Valuations in private funds vs. public funds:** Who's right? (page 14)
- **Hedging and Diversification.** What's the best hedge? CTAs and trend following strategies (page 15)
- What is the calculus for **angel and (seed) venture capital** investors today? (page 8,9)
- **Exponential technologies** (page 13, 25-26), The single biggest result of the pandemic (page 13, 20-21)
- Where is **real estate** going? Challenges and pockets of growth (page 11-12)
- Fundraising in 2020: Why the current environment is not too bad for emerging managers but fundraising a challenge, opportunities for L/S equity (page 9-11, 18-19)

- **The World of Family Offices** (FO) in 2020:
  - The top six macro and geopolitical themes for single family offices (page 16-17,19-20). Concerns about debt and inflation (page 11,24)
  - How FOs invest. FOs to seed hedge funds again (page 11,19)

- **Why ESG finally took off** in the US. 80% of hedge fund managers have nothing within the ESG space: Problem & opportunity. ESG in the early stage world (page 22-24)

- Facial recognition, globalization, and **how to invest in a world where "if something can be done, it will be done"** (page 24-26)

Enjoy!
Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT):

Peter Fletcher, David S. Rose, Lisa Head, Cedric Kohler, Chris Beres, Matthias Knab

Introduction

Peter Fletcher
PHF Capital Inc

I am the Managing Director of PHF Capital Inc. – my family office that is dedicated to advising a select global group of substantial family offices on international investments, asset allocation, and other pertinent family office issues.

I have over forty years of successful international experience that covers a broad spectrum of financial management functions in the trust and banking industry in Canada, Australia, Bermuda, Hong Kong, and Switzerland.

In addition to holding numerous directorships of investment funds and companies, I have served on various international governments' financial regulatory bodies and hold the professional designation of Chartered Financial Analyst.

I am also the Founder and Chairman of the Club b – a globally-renowned, members-only, private, and non-commercial international investment forum for family offices.

The Club b is an idea generator and thought leader in the family office arena, focused intently on providing highly valuable content for family offices to manage their wealth and office successfully.

For twenty-five years, the Club b has been dedicated to providing authoritative insight on global market trends and asset allocation, as well as providing an innovative forum to introduce family offices to one another to navigate their greatest challenge – the transition from one generation to the next.

The Club b encourages family offices to enlarge their personal network in an informal and collegial setting, expand their knowledge through renowned speakers, and exchange investment ideas through annual events and other collaborative platforms.

David S. Rose
Rose Tech Ventures

My name is David S. Rose. I'm the Managing Partner of Rose Tech Ventures and the CEO of the financial technology platform, Gust. I am a serial entrepreneur and an active early stage FinTech and PropTech investor. I started my first company in elementary school and have founded half a dozen others – several of them venture-backed – since the early 1990s. Following the dotcom crash, I started making angel investments and founded New York Angels, which today is one of the world's largest and most active angel investing organizations.

I have made personal investments in over 120 companies including JUMP Bikes, acquired by Uber; ComiXology, acquired by Amazon; and others acquired by companies including Google, Facebook, Intel, and Oracle. Based on this experience I wrote the New York Times best-selling book "Angel Investing," which has become the standard textbook for the industry.

In 2009 I became an Associate Founder, and the Founding Track Chair for Finance, Entrepreneurship and Economics, of Singularity University. SU is a think tank and post-graduate program focusing on the future of society in an era of exponential growth in technology, and my research and teaching there over the years has focused on the Future of Work and of business, in a world where human labor is rapidly becoming obsolete. I am also a partner in True Global Ventures, an international, early stage venture firm.

I eventually returned to the entrepreneurial side, starting a company called Gust as the infrastructure platform for the early-stage venture and angel financing universe. Gust today back-ends over 3,000 angel groups, accelerator programs, and early-stage venture funds and services 950,000 start-up companies. Over 10,000 companies a month come onto our platform to connect with early-stage investors. Along the way I wrote a second NYT best-selling book called "The Startup Checklist" which has been adopted by over 500 U.S. universities for their

entrepreneurship programs. With a large base of entrepreneurs and investors, Gust has built a Software-as-a-Service (SaaS) platform to handle the automated back-office needs of high-growth start-ups, from incorporation and cap-table management, to legal and financial products and operational services.

This in turn led us into the world of capital markets and exploring ways to apply blockchain and distributed ledger technology (DLT) to financing and investment, which finally led us to a major initiative on which we are currently working: an industry-wide platform involving the securitization of institutional-grade, commercial real estate assets.

Lisa Head
Weaver

I am the Partner-in-Charge of Investment Fund Tax Services at Weaver, a public accounting and advisory firm providing assurance, tax, and consulting services to a wide array of industries including a major focus on alternative investments, financial institutions, private equity, real estate, energy, oil and gas, and healthcare. I have over 18 years of experience in financial reporting, auditing, and tax preparation and analysis for investment companies. My focus is primarily on the unique and challenging taxation requirements of entities in the alternative investment industry, including domestic and offshore hedge funds, master feeder structures, and funds of funds. My team and I have have significant experience in the tax implications associated with long and short equities, fixed-income securities, MLPs, commodities, swaps, and other derivatives. Apart from tax compliance and consulting I also have a background in wealth advisory and family office operations.

Cedric Kohler
Fundana

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

Fundana is a boutique and wants to remain one. It is not aiming to manage $5bn with 50 people in the future by capturing fads. The focus is not on product, but on performance and risk management. It is recognized by industry peers as a specialist and aims to find clients who need its expertise.

Fundana is a member of Swiss Fund and Asset Manager Association's Alternative Expert Committee.

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

Chris Beres
Nuveen

My name is Chris Beres. For the last several years I've led the investment oversight of Nuveen's real assets, alternatives, and multi-asset investment strategies. In that role, I'm responsible for investment manager research and due diligence for both third party and internal investment teams. All combined, I think there's over $200 billion in these asset classes across the Nuveen and TIAA platforms. Nuveen manages over $1 trillion – I joined the company in 2018 from Brookfield Asset Management's Public Securities Group, where I held a number of roles spanning a decade in New York and Chicago. Most recently I was an investment analyst responsible for asset allocation on the firm's multi-asset strategies. Prior to that, I worked in product development and product management functions where I helped design and implement a range of real assets investment strategies. I began my career in consulting, where I worked closely with executive teams at financial institutions like Morgan Stanley and Blackrock.

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Matthias Knab The repercussions of the COVID-19 pandemic have fundamentally affected how we live, do business, and invest. Of course, at some point, we'll see a recovery from the global economic impact of this coronavirus, but the world will have changed with a new normal emerging. Big tech is probably a winner as well as pharmaceutical and healthcare firms, or delivery brands.

But let's go for a moment back to Q1 2020. In February, the Dow Jones Industrial Average, the NASDAQ Composite, and S&P 500 Index all finished at record highs, but the tide turned after Feb. 19th and hit their lows in March, down around 30% in most G20 nations.

How did you experience that period? And then secondly, going forward, what have you changed?

Cedric Kohler: We went through this crisis relatively serenely. For sure, like every crisis, the hedge fund industry had to deal with large price swings, volatility spikes, and liquidity challenges, but this was the same as every other crisis.

Luckily, and unlike 2008, **this crisis did not come with massive risk reductions** which would have led to difficult unwinds. This crisis, however, tested our managers' operations and business continuity planning, and I must say things went very well. This is a great testament to our operational due diligence process.

But the crisis is not over and will be more like a marathon! The full impact on the real economy is not yet well understood, and company defaults will hit many sectors hard, and in turn affect banks and strategies such as credit.

The most important thing for us is to remain flexible and to make sure our managers stay that way as well in terms of AUM, leverage, and psychology. Long term performance comes from resiliency, which in turn comes essentially from having the ability to react and adapt to new environments.

Matthias Knab Fundana has for 27 years been running hedge funds of funds, so you have been through a number of cycles and crises. From the perspective of an investor in hedge funds – who often claim to be more nimble and through their use of derivatives, hedges, and shorts being kind of better equipped to deal with crises and volatility – can you shed more light on the actual performance of your hedge funds in Q1s?

Cedric Kohler: We were relatively satisfied with our portfolio which had no accidents. Performances are in line with our expectations. We are at +2% YTD as of May, after being down about 5% YTD as of the end of March and down 2% YTD as of the end of April.

Now, as with every significant crisis, you must adjust some of your managers. However, this time we needed to change less than 10% of our portfolio. So, this has been a relatively low turnover given the magnitude of the market correction.

The key for us is to analyze how a manager goes through a drawdown and compare that loss to how much the manager gained in the previous cycle, to the market loss, to peer drawdowns, and to our expectations. We also pay a lot of attention to how they restructure (or not) their portfolio.

Crisis periods are very important for hedge funds in particular because of the dispersion of their returns. During the 2008 crisis, for example, the performance difference between the best managers (top quartile) and the worst ones (bottom quartile) was north of 25%! This is huge in absolute terms but also versus traditional asset classes (which are usually closer to 5%). So, manager selection is key when building hedge funds portfolios in general, but even more so during crisis. We actually just wrote a paper on the impact of good or poor manager selection.

David S. Rose: I'm in a very different part of the market from the rest of you, so my home is the seed venture capital and angel world. I invest – both directly and as a partner in a venture fund – in very early stage companies, none of which are profitable. And so, the calculus is quite different for the kinds of investments we have.

In our universe, there is no liquidity. None at all. So, you can't simply divest a non-performing asset and change your portfolio; you have to live with what you have. *Instead, we need to look at how the companies are dealing with the pandemic crisis and then make decisions about what to do in terms of future investments.*

As such, the calculus for a company that is not currently profitable is very different from one that is, or at least has been. If you have a viable, solid existing business – let's take a cruise line, airline, or a restaurant as an example – and all of a sudden, some external factor like the pandemic shuts it down, you can project that, to a large extent, the problem is temporary. At some point, a restaurant will reopen, and air traffic and the cruise industry will come back. They may not come back to the level they were at before, and there may be very different operational requirements, but they *will* come back because there is a viable underlying business. As such, you can use traditional analyses and projections to make investment decisions.

But for an early stage venture that is aiming at high growth but is not yet profitable, the question is "will they ever get to that point of probability in the first place?"

What we are doing is dividing our portfolios into groups based on the type of impact the pandemic is having on them. There are some whose businesses are positively affected by the crisis. Those we are doubling down on. For example, janitorial supplies or medical device companies or online remote working platforms. Other businesses may not be directly affected but may have customer segments which are. For those companies, we try to shift them to focusing on viable customers who are doing well in this market. The third group are businesses that are suffering an impact from the pandemic but may be able to pivot. For those, we are helping them redirect their operations or their customer base or their products into something that can survive in this kind of economy. And then finally, there are companies who are flat-out negatively affected and whose fundamental projections are being called into question. For those who can't get to profitability in the near term, and don't have a guaranteed positive outcome post-crisis, there are tough choices to face. For those, we are trying to help them find other companies in which they

might be able to merge or be acquired by, or in a worst case cleanly shut down to stanch the bleeding.

What else did we see? First of all, the minute this happened, virtually every single one of our companies applied for Paycheck Protection Program Loans. Because they are all small, they are all living on the edge, and they were virtually all negatively affected in some way, almost all of them were approved. That has provided them a bit of a breather for a couple of months and enabled them to keep their employees, without whom they would have had to shut down.

Another important factor is that during the past two decades we had previously gone through two other crises: the GFC a decade ago and the dotcom crash two decades ago. **This time around many players have been better prepared and equipped to deal with such a crisis** because they (or at least their older investors) had learned from history. I well recall how in the dotcom crash everybody (including me) was completely taken by surprise. The initial assumption was that it was temporary, and they could still get bigger and bigger and grow their way out of the problem. Not!

This time, everybody realized that the world had stopped, and every single company, big or small, immediately shifted its focus to profitability. All of our portfolio companies started right away with a laser focus on reducing expenditures, cutting burn, scaling back fundraising plans, and preparing for a world after COVID.

The general belief among both early stage investors on early stage companies is that there will be no new fundraising happening of any significance for the next three to six months. If you were in the middle of raising a round, you are going to have real challenges completing it. If you were thinking of doing a round, don't even start until this is through. And if you are at a point where you are lucky to be able to have a round in progress completed, the valuation is probably going to be discounted by a third or even a half of what it was pre-crisis.

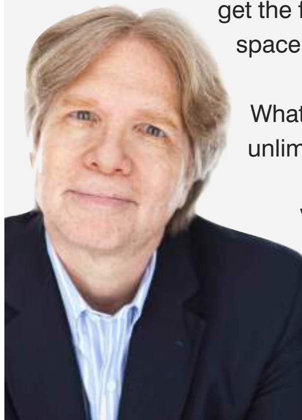
Summing up, for most of the early stage and very early stage businesses, the challenges posed by the pandemic are real, immediate, and existential.

Matthias Knab David, you mentioned that valuations have come down by half or even two-thirds for companies who may be having or completing a financing round right now. I wonder, in the liquid markets there is the concept of bottom fishers, so the attempt to buy assets near their lowest valuations – buying the dip.

Do you see the same in the angel and early stage segment with investors taking advantage of these halved valuations?

And then, we also know that until recently the challenge in the growth and late stage financing segments was that there were basically too many investors chasing too few quality deals. Have the dynamics changed there as well, would you have some insights on this, too?

David S. Rose: I think we are still a little too early for that to come into play, as the crisis really only hit in March. Bottom fishing is when you have a viable company that you can buy at an attractive price. In the early stage world, keep in mind that only one out of 400 companies that applies for venture funding gets it, so just a quarter of a percent of businesses get the funding in the first place. As such, the concept of bottom fishing doesn't really apply in the start-up space.



What it does mean is that for anybody who is looking to raise funds, the very heady days of explosive, unlimited growth and becoming the unicorn next week are clearly not going to happen for anybody.

Valuations have dropped across the board for everybody. For later stage venture companies that have been growing but are still not profitable, the effect of the crisis is to force them to focus on profitability – and survival – above growth. This change will dramatically affect their growth curve, and thus their exit opportunities, for quite some time.

Lisa Head: From what we have been seeing at Weaver, the current environment has not been too bad for emerging managers. I handle tax compliance for hedge, private equity, and venture capital funds, and I am talking to a lot of emerging managers right now. So, in fact, we are currently dealing with quite a few startups and their related businesses.

Now, you might wonder, why is that? It is because I like helping the $5m to $250m launches. I don't ignore them to focus on the multi-billion dollar managers. So emerging managers are our sweet spot because we offer a lot of value and guidance. You could indeed say that it is the bottom fishers, as you put it, that are coming out and wanting to capitalize on that particular market.

We're seeing many basic long/short equity funds launching. In fact, I saw the same thing in 2008 where in the years leading up to the financial crisis, maybe as a predictive indicator, it seemed everyone started investing in these esoteric derivatives, and then we saw the fall-out from that in 2008 and 2009. Well, to some extent, in my opinion, I saw that cycle starting again in the last three years with more people investing in debt. Now, here we are again, and it looks like we are having another reset, and managers are going back to long/short equity, which is frankly, extremely interesting to me from a tax compliance perspective.

Matthias Knab Peter, take us through what you see happening in the family office world. For 25 years, Peter has been guiding a very exclusive network of 800 of the world's wealthiest families and their family offices, and you run your own family office as well. So, Peter, you are very well connected, how are you and the single family offices you are connected with dealing with the current environment?

Peter Fletcher: With borders closed and most of the airplanes grounded, what you see in the family office world is that, first of all, **people only deal with people they have money with or have followed through previously.** Families who invested before together are also now working on deals together.

We have also been doing a lot of work on what's it going to look like when we come out? The days go by and they all seem to have a Groundhog Day feel, but **we also need to think where is this all going to go?**

So, we are taking a hard look and studying what happened in 1918, and let me remind you that this moved into the roaring 20s. But we may be re-entering something similar, maybe a cross between what happened in Japan in the 90s. So, it's a great time; it's a scary time. I think, there will be more innovation, more art, more science, similar to what came out in the 20s.

At the same time, everyone just seems to be just sitting back, but **I think we're really in the eye of a storm.** We haven't seen anything yet. Going into this year, we have done a lot of work on debt. Well, if we thought we had a lot of debt before, we now know that the U.S. just issued about 10% of GDP in debt. This will probably mean that your money, your cash, is not going to be worth the same a year from now, so, there's great concern.

We mentioned hedge funds, and while in the past I invested in hedge funds for so many years, I had recently stepped back from that. But, as Lisa also pointed out, there are pockets of opportunity opening up, and it might be interesting setting up our own with a few managers. For example, doing sort of managed accounts with a group of families for managers they know, looking at kinds of opportunities globally.

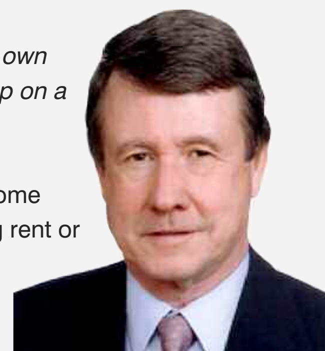
But also here I personally think it's way too early. David quite rightly mentioned that we are just a few months into it. Some of the funds I am invested in have done really well, and I'm quite happy with that. Commodity, medical, bio-tech has done really well. But this is the first round of the crisis; what's going to happen in the second round?

I raised a lot of cash last year, and so I am in a dilemma now. In addition, I have taken on the task of helping out another family here running their family office. They had a big liquidity event last year and so there's a lot of cash, but cash in what? And I think in North America, everybody forgets negative rates. They've lived with it in Europe since 2008.

David S. Rose: Peter, where do you see real estate going?

Peter Fletcher: That's a fascinating question and something I'm doing a lot of work on because people aren't going to work the same way as they did before. Sure, you still have to get together, but, like many other groups, also many family offices are now working from home, and their traders, analysts, etc., save two hours a day in commuting. All you need is a digital infrastructure.

I don't know if we're going to meet people a year from now. My take is that we're not. If I look at my own life, I used to travel quite extensively and have done so for a long time. But now, I'm not going to hop on a plane for a while unless I really have to.



To me, the commercial real estate side looks pretty ugly, especially here in Canada. We have had some real estate booms in Toronto and Vancouver, and on the residential side, some people aren't paying rent or their mortgages, what's going to happen coming out of that? Again, it's too early, and while I believe there will be great opportunities everywhere, I also believe it's too early.

Matthias Knab We mentioned the dotcom bubble – that one lasted for 929 days and equities lost 48.6% in aggregate. This corresponds to a 1.6% average loss per month. The real estate / financial crisis bubble of 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 with the coronavirus led meltdown, in one month we lost over 30% which is 20 times faster than the dotcom bubble and 10 times faster than the financial crisis of 2008 through 2009.

What are your thoughts in this, and also the inflation risk Peter brought up?

David S. Rose: The fundamental difference this time is the crisis (a) was caused by an external event that does not relate to the fundamentals of the market, and (b) has affected everything rather than a limited number of sectors. In the previous two crises we needed to deal primarily with issues that were initially endemic first to the tech market and second to the real estate market. But this year, the world was going along fine and growing and doing normally; and then an asteroid came down and just stopped everything.

The issue we are now facing is that once you pull the asteroid back out, the fundamentals of businesses nominally should be the same as they were the day before shutdown…and that makes for a very different kind of crisis. As Peter mentioned, we still have to see how the world copes with the insane amount of debt that appeared in a very short period of time. Everybody is asking whether this is a V-shape recovery, a U-shape recovery, or an L-shaped stabilization at a lower level for a long time. I don't think anybody knows for sure, but it'll be fascinating to see.

Chris Beres: David, I am not sure if I entirely agree with the characterization that until the coronavirus hit the markets in February this year, everything was going on just fine. *You could also argue that maybe the current crisis revealed or is about to reveal some of the structural instabilities that were baked in to the market, but not readily apparent because central bank policy or ultra low interest rates or what have you.*

We talked about real estate, and one of the trends I've seen in covering the asset class is the continued acceleration of some of the existing trends we're having in the economy. Retail has been dying for the last five years, and now it's only gotten worse. Good luck owning a mall in this environment. Good luck owning a hotel, or even an office building, they're going to be worth probably quite a bit less than where you had it last valued.

But, to be fair, we had also seen pockets of growth in some real estate sectors, and there's the potential for them to actually benefit from COVID-19. Properties like data centers, or cellphone towers, anything where tenants are technology and not people, not only shouldn't be impacted, but could be poised for further growth if this accelerates our reliance on technology. Industrial properties, warehouses, that benefit from the move to e-commerce, or the potential for onshoring of industrial capacity in an environment of de-globalization, could also be winners.

Longer-term, maybe single family housing or multi-family residential has likely been a little bit less impacted as people still need places to live. Geographically within the U.S., at least, don't be surprised to see an acceleration of demographic trends supporting growth in the sunbelt and

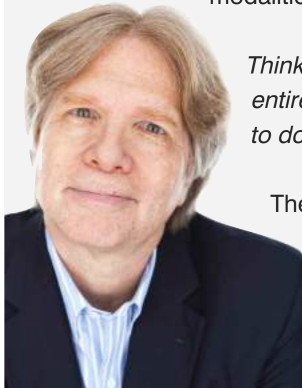
away from the Northeast. Those segments and regions will continue to see growth and should attract inflows, especially in offerings from specialists focused purely on those asset classes. So, I think there were already some interesting things going on and the Corona crisis is just going to accelerate some of the trends we have seen in some real estate sectors.

David S. Rose: That's actually a very good point, and I'd like to double down on it. Over the last several decades we have seen the beginnings of the effect of **exponential technologies.**

I am an Associate Founder of Singularity University, which is studying the effects of exponential technological growth on society. For over ten years I have been studying questions like "What is the future of work?" "What will happen to things like retail given the disintermediation?" "How will people work remotely, and live, and move around?"

But until now a lot of this has been rather academic. We were effectively speaking in a vacuum when we said things like, "In the future, you will have self-driving cars," or, "How will things be affected when nobody has to go to an office to work?" Because people had not internalized the concept of exponential growth and the changes it is triggering, they were effectively ignoring this.

And so, Chris, I think you're right in pointing to the already ongoing changes. I understand Peter as well with his large groups of family offices who are trying to look further into the future of the world that's emerging. **The single biggest result of the pandemic may well be that the entire world starts focusing on what is going to happen in the future.** They are suddenly being forced to acknowledge the accelerating change that they weren't even aware was coming. But it absolutely is, and now it's already in your face. Things like flexible work models and work spaces, working from home, and all the new kinds of modalities we are dealing with.



Think back to January and ask yourself whether you could have conceived of any way at all to get the entire world – in 30 days – to start using Zoom for business meetings. You couldn't have figured out a way to do it. But now, all of a sudden, it's here.

The technology was in place and it's working. As such I think this has accelerated – not so much the underlying challenge, although Chris is right to an extent about that – but even more people's understanding and opening their minds to realize what the new world will look like and what that means.

Chris Beres: Speaking of what new worlds will look like, I was wondering if anyone has any **thoughts on energy?** Everyone is keenly aware of what happened to oil prices and the crash there in the futures on the Sunday night of the OPEC announcement was where kind of this overall market sell-off showed up first, but oil has been struggling for a while. The price war with Saudi Arabia and Russia happened right on the verge of this, which at first seemed like savvy and opportunistic timing as the markets were already weakening, but the eventual result of seeing negative oil prices is pretty shocking to everyone.

People also have been talking about the transition to renewables for a while. It'll be interesting to see if this is the real kind of kick in the pants there to push that transition forward, or will this huge supply of energy with prices being at all-time lows kind of freeze that transition to renewables on its

tracks? I don't know how to think about it, but I do know that there has been a lot of capital destruction related to investments in energy, and in oil, and gas and traditional carbon-based energy in particular.

Here is another interesting thing. When you compare public markets versus private markets, doing a look-through on some of the **valuations in private funds** has been pretty eye-opening when you compare it to public market equivalents.

As a quick example, say that a well-known pipeline operator structured as an MLP lost about 50% in the first quarter on its equity. Its bonds lost about 30% of their value in the first quarter. A private infrastructure fund that held some privately placed preferred equity in the same company was valued at just 4% loss during the quarter. You'd think normally, preferred would be priced somewhere right between debt and equity given where it sits in the capital structure, but nope, by way of having it not marked to market, you saw substantially less downside. The ability of private funds to continue to use a range of valuation techniques and metrics is then an interesting feature of the products for investors, and I think the asset class continues to be attractive for investors.

And maybe that private fund's valuation was right all along because after April, the company stock, as well as the debt, bounced back and down 4% was pretty close to where the triangulated midpoint between debt and equity was a month later. But there are definitely a lot of short-term dislocations just comparing private and public markets; I think that's true for a lot of sectors, and the crisis exacerbates it.

Lisa Head: That's what we see as well. Considering we have about 3,000 energy clients, many of which are backed by private equity, we have a pretty diverse energy perspective. I agree with the point Chris made about negative oil prices being jarring for the industry. Since then, I think there has been less fear as oil prices started to return. That said, the oil market has faced some challenges for the last 2-4 years. There have also been increased ESG pressures and requirements, so some traditional oil and gas funds looked for diversification through billion-plus funds committed solely to that space. Although renewable investment is trending upward, the size and volume of investments still seem inconsistent.

The energy industry has evolved over the last ten years with the traditional "drill and flip" model moving away, and the focus becoming more on the acquisition of "free cash flow" through the production and efficiencies of PDP. There has also been substantial investment on the minerals, midstream, and infrastructure side as well. Moving forward, there are many opportunities (demand/price spike, focus on efficiency, value-add investment opportunities) and challenges (climate change, ESG, pressure on returns), and the industry is very much focused on being a large component of the energy makeup/portfolio of the country for years to come.

Matthias Knab One thing I wanted to discuss here is the idea of diversification. Coming back to that for a moment, can you hedge for such events as we had in March? Should you hedge? After Q1, are you or your clients and investors looking differently at diversification?

Cedric Kohler: Let me start by stating that **hedging well and successfully is very difficult, and achieving diversification consistently over time has become harder and harder.** We just witnessed in March a week where everything was correlated – stocks, bonds were going down at the same time, probably the result of some unwind.

My point is that you must be extremely careful when using tail risk hedges. You need to invest an enormous amount of time understanding and defining what is it that you are trying to hedge under which scenario? How much you want to pay, and then making sure that you have the risk budget to hold these hedges for many years.

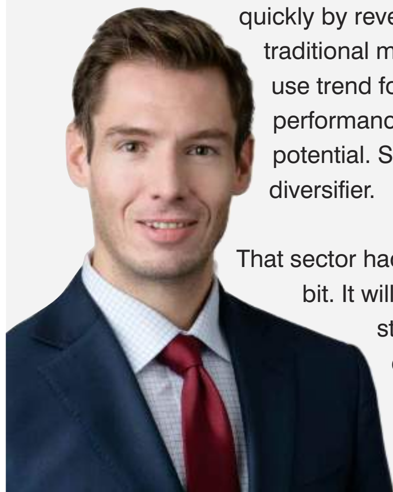
Bear in mind that if you started doing tail risk hedging post-2008, it took a decade before that protection "paid off." Many investors did not have the patience to pay for something that never happened and took off these hedges before this year. One very good outcome of this exercise however is to force investors to think about "what if" scenarios and prepare them for what they can do in case of drawdowns and determine ex-ante their pain threshold level.

In addition, these products need to be specific to what an investor wants. That's why you don't see that many funds but rather mandates. The consequence is that it's difficult to know who is very good at it.

Some markets or asset classes are just tricky or impossible to hedge, such as private equity, ILS, and some parts of the credit markets. At Fundana, we are not fond of these strategies. **Our experience is that the best hedge is to "de-gross" your book, i.e sell your longs and buy back your shorts.** This is the simplest and the best way to effectively reduce risk. But this may not be the easiest depending on the size of the book.

This is why we focus on managers with AUM between $200m and $2bn with limited leverage (lower than 200%), liquid portfolios, and small short books. This last point is crucial. You see, you can have a heavy short book (more than 50%) which might help initially during March, but then when the market rebounded like April you might get killed on your shorts. And it's not because you have a small short book that you will not perform. Again, we are flat YTD.

Chris Beres: Traditionally, this is an environment with markets going up, up, up, and then a sharp drawdown, so you might expect **CTAs and some of the trend following strategies** to perform terribly. Those products can get rip sawed quickly by reversals, however, this time we did see some pretty good performance relative to equities from traditional managed futures, CTAs, and trend followers and also with some of the newer strategies that use trend following in kind of exotic or niche markets. You continue to see extraordinarily strong performance in the first quarter, as idiosyncrasies in non-traditional futures offer strong trend-following potential. So, some of those can be attractive, not necessarily as a tail risk fund but perhaps a true diversifier.



That sector had a strong performance a decade ago in the financial crisis but since then has languished a bit. It will be interesting to see if we get a little bit more of a pick-up in interest in those types of strategies. Performance this time around hasn't been quite as good as during the financial crisis, but any trend follower with an allocation to fixed income in particular, probably did pretty well versus equities, and you wouldn't have minded having it in your portfolio.

Cedric Kohler: I would challenge that view a little bit. We saw a few clients who used CTAs as a hedge to equities and gave up a few years ago because they cost too much versus what they produced during market corrections.

If you had CTAs in 2008, you did well, but post that it hasn't worked that much, and that's why the sector has been challenging. In '08, CTAs made a lot of money because they were long bonds when rates were much higher and not so much from short stocks. Today, long bonds do not pay as much and so CTAs are not protecting enough anymore.

Peter Fletcher: In the family office world we see a few developments I want to comment on. We know, and this is also widely covered by the mainstream press, that the sheer number of new family offices setting up keeps growing because of liquidity events like the one I referred to before.

So, on our end, we see more family businesses being taken over while EBITDA multiples keep going up from 9 to 16, also because so many investors have to invest, such as sovereign wealth funds, pension plans, and so on. The other thing is that in a market like the U.S., the number of listed stocks is down by 50% over the last 10 years.

Cash is always the best hedge, and going into this I had a lot of gold and other noncorrelated assets because I expected a big down turn. I called it the Big Ugly in reference to that ugly dog picture that we have used in the past at our events. But I didn't expect the virus, although we have been studying them since 1996 when the book came out, The Coming Plague by Laurie Garrett, and having lived through SARS. When I was running a family office in Geneva years ago, one of the family members knew the Head of Infectious Diseases at the WHO which scared the hell out of you when I visited his office and saw the clusters of infections on charts on the walls.

Right now, across the board just talking to a lot of families, they look at their funds and investments, and most are down, but at this point we can't do much about it, and so it's again about looking ahead. You have to look at every investment because every company is going to be alive or not alive going forward. "What are you going to do? How you going to do it? Does management understand what's going on?"

Let me also share with you the **top six macro and geopolitical themes that are on top of families and single family offices today, according to our research.**

1. The role and impact of government policy going forward

This is a no brainer, this includes the question, "how much are you going to get taxed?" Your taxes are going up, wealth is going to be taken.

2. Isolation or insulation versus globalization

Those issues are going to affect every business. We really don't have a global leader. Who's going to lead this out? The responses are so uncoordinated globally, it's a scare. We also know that the virus spares no one and that it could go everywhere, so we need to understand how it moves and how to stop its expansion, and how we are going to operate going forward with the virus around.

One of the things we are looking at now is telemedicine, which is a no-brainer, science, and biotech. I would agree with David about the forces of innovation and change that are going to be unleashed. We could be entering the most amazing time and innovation with lots of things changing,

just because of people thinking at home.

In a way, we are all in a war against an invisible enemy. Through our Club b, we are working quite closely with a retired Brigadier General, David Fraser, of the Canadian Defense Force that handled the biggest battle in Afghanistan for NATO. We were curious to hear from him how the military is managing such challenges when **everything is asymmetric**, when you don't know where things are going. In the domain of investing, we have all this data being thrown at us, and also we have to decipher, where should we react – and so, how do you do these things in the field of combat where it's life or death? How do you decipher and decide?

The kind of mantra I'm using now is, "You have to plan like a general and execute like an entrepreneur." What does this mean? I think it's very important to literally be analyzing everything to death at the moment.

Back to investing, there are some smart managers going around just picking up pieces of some funds that have gone into liquidation. So, how do you know about these managers? It's because you know them or it's through people that you know. Anybody trying to raise money for a new fund will have a challenge, unless they know the right people or they have something very unique.

A friend of mine asked about 18 pension plans that he knows and said, "Are you going to allocate to a manager that you don't know or haven't met?" And close to 95% said no, they would not, and a lot of them have it in their bylaws that they can't invest with a manager they haven't met. That's going to create an interesting dilemma.

But like with everything else, I think, you have to think positively. This thing is ugly as hell, but it's also nothing new. There have been 11,000 viruses since the 80s, there were viruses since the dawn of time. But the key question that we all should look at is, "Why weren't we prepared?"

We should also take a close look at all our investments and holdings. I was just talking to another family here in Canada, well, they have a little company that didn't go anywhere for years, but it made masks. And now that firm is signing government contracts for 10 years, and it's probably a good guess we'll also need a lot of masks beyond that.

Again, like that general, you need to look at all moving parts, which for investors means to closely check on your managers. What are they looking at? How are they thinking? Do they understand really what's going on because the world isn't really following the same model as before.

But, once more, I also think we are heading towards the most exciting time. People are thinking what they are going to do when they come out of this, and probably not about "I want go to the office," rather about doing something you maybe haven't done in life. We had Marko Papic, a great geopolitician, on one of our webinars, and I totally agree with him. Once a vaccination comes in or this threat is contained and over, there are going to be some big parties in the world. Everybody is going to go like the roaring 20s, but you've got to survive until then.

Doing things like our Roundtable today, connecting people, listening to different, diverse ideas, what's going on, how do you live in this world of change that everybody looks at from a different angle does make a lot of sense.

David S. Rose: Let me follow up on Peter's comment about the small little company not doing so well making masks, but all of a sudden the world changes and so now they will forever be in good shape. Many years ago, one of the companies in our portfolio had developed a way to allow musical performance collaboration in real-time over the network. You can have the musicians in a band playing together, remotely, in real-time with no discernible latency. It was a cool technology and a great idea. We invested a decade ago, and despite the fact that it was cool and people thought it was interesting, there really wasn't a market for it because you could almost always manage to get a band together in person. Also at that time Internet speeds weren't great all those years ago. So the company could never take off, and eventually came near to shutting down.

But now, all of a sudden you have a world in which the entire entertainment industry globally just got stopped in its tracks. And here we have this little company which has the seminal patents on how to collaborate in real-time. While the company was almost non-existent the day before yesterday, it looks like now it may well be unstoppable. California, for example, has canceled live concerts and large entertainment gatherings through 2021… that's over a year! You are simply not going to have 50,000 people getting into an arena for any purpose at all, and even bands are going to have challenges under lockdown rules. So, confirming what Peter was saying, *with a fundamentally changed world we need to look at all kinds of new approaches, and old approaches can in fact now turn new.*

Peter Fletcher: Why did you invest in the company in the first place?

David S. Rose: Because I'm a futurist! I am always looking 20 years ahead and to me – even back then – the idea of remote collaboration was really cool and interesting, and I thought it would make a lot of sense.

Peter Fletcher: Smart.

Matthias Knab Lisa, I have a question for you. You mentioned you see a lot of managers starting up, and we just heard from Peter more about the dire reality or challenges when it comes to asset raising for new funds. How do you see these start-up managers that you are working with, actually get going? Do they get inflows, can they grow?

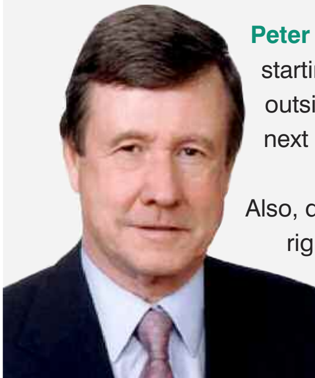
Lisa Head: Yes, I think so. They're definitely seeing inflows and opportunities with the bottom in the market. **New funds and new managers seem to be starting more easily than you might think.** In some cases they've been running SMAs and want to pool those accounts together so they can buy more, or they've had success in managing their personal portfolio and are able to pool money from "friends and family" because there is recognition of the opportunity, especially if those friends or family members lost money in their portfolios over the past few months and see greater returns here.

Matthias Knab Right and then probably hoping that they have the operating capital to survive the next two years or however long this will take. Cedric, what do you see when it comes to start-up or newer managers?

Cedric Kohler: I would agree with Lisa. With every crisis, there are funds closing down. However, this is also an opportunity for a number two portfolio manager to launch his or her own new fund.

Having said that, **asset raising will be a challenge in this environment.** The assets raised will not be as high as they could have been versus last year for example. In addition, because of travel restrictions and social distancing, it will be harder to meet managers in person. This is a challenge for investors, like us, who need to meet managers physically, see their offices, and check documents on site. Until we can do that, we will not allocate to new managers. This is not a real issue for us since we constantly are testing five to ten new managers in the portfolio with small allocations. Therefore, we are set for a few quarters.

So, you can get a small fund launched today, but their real growth will come later, that's for sure.



Peter Fletcher: As a group of families we have been seeding hedge funds for many years, and that's starting to happen. Families get together and seed their own hedge fund, and with this they do not need outside capital for a while. Later on, if the manager really wants to make money, fine, that would be the next chapter. This is certainly a trend or development in the family office world.

Also, doing it like this has the advantage that the investors putting up the capital can control everything, right? You can have a very controlled step by step process and work closely with the manager and making sure you really understand the strategy, the new ideas, and concepts.

Matthias Knab Are these also traditional say equity long/short funds or more niche type of strategies?

Peter Fletcher: Sometimes it's long/short, but also, there are already so many out there, so the trend is more towards niche strategies.

I haven't finished my list of things that families are thinking or studying at the moment:

3. Gold

Gold has been among the top investments of families for a while. Last year, we already warned that there is a hundred times more paper gold than physical; there's a lot of counterfeit and other issues out there coming.

4. Crypto

A lot of families started to go into crypto; right now, we have a couple working together on funds, just putting a little bit of money as a start.

5. Telemedicine

I mentioned telemedicine already. This is a broad field that will also come out big.

6. Cybersecurity

That's another one really important to families and actually everyone. It's mind blowing how much money is being lost there at the moment, but nobody seems to notice this. I think, Toyota just lost $37m this month, this goes on and on and won't subside. There are some people in the dark web right now making a fortune. I see a lot of families getting hacked because people aren't prepared. With everyone working from home, we are also offering more and usually less secured access points to these criminals, it's scary.

As we know, all Bitcoin transactions are public, traceable, and permanently stored in the Bitcoin network. When you apply a certain amount of intelligence, you can see amazing things in there. Some hackers are just taking over businesses. We've got four case studies on cybersecurity and cyber threats at the moment. One business, owned by a family group, lost $11m, they had to lay off 300 people, and the whole business model just changed. It's like Ghostbusters – who do you call? There is also a whole new threat with mobile phones getting hacked through SMS messages, it's huge.

So, it's just mind blowing what's going on there, and I think people have to really follow it, also from an investment thesis, but there are not many managers really literally looking at it.

Apart from all of that, all of us need to really look ahead and make a major effort to understand how and where things are going to change because the world will not be the same as before this coronavirus crisis. Will capitalism be the same? Will growth be the same? These are questions you got to ask.

Matthias Knab I have a couple of questions for David as our futurist. What are some of the things that you think will emerge first? What other opportunities do you see right now or for the next 12 months?

David S. Rose: Let's start by looking at the next twelve months as a short-term challenge. We'll see some changes as a direct response to what's happening right now, as many sectors and businesses are dislocated and put back into place over time.

But as I mentioned previously, I think **the long-term impact is going to be the dramatic acceleration of people *thinking* long-term.**

That's because now they have concrete evidence in front of them of what can happen in a densely connected, real-time world. While before the idea of a pandemic was abstract or something you vaguely remember from history classes – the 1918 Spanish flu or the Black Plague or whatever – all of a sudden, it's something that most of the globe has experienced first-hand. Everyone can see how in 30 days a pandemic in 2020 has shut down the entire world. This puts into stark relief the realization that the future is here. Whether it's a future of energy – as we were discussing before – whether it's the future of climate change, whether it's AI, robotics, or autonomous vehicles – which are absolutely coming and will have a major impact – we have met the future and it is us.

Probably the single biggest immediate impact, however, is, going to be on real estate, and nobody knows for sure how that is going to play out. On the one hand, you are not going to see people crammed into offices side by side, two feet away from each other, at desks or cubicles. Now there is a new move to "The Six Feet Office," where everybody is six feet apart and you need more space. On the other hand, you already had a rapidly accelerating move to flexible office space – no traditional 20-year leases – but rather WeWork-type of operations.

Every major property owner in the U.S. who has commercial buildings has been experimenting with their own brand, or with joint ventures, on these flexible offerings. This is something that will continue, as will the number of people working from home. It is not going to be like this forever – everybody working from home all the time – but there will be much more of it in a way that you could not have dreamed of prior to two months ago.

Matthias Knab

We have this economic slowdown, and with less traffic, less output in factories, et cetera, there was this hope to have a measurable positive effect on CO2 levels and the climate change threat.

And, in fact, the International Energy Agency expects this year's annual CO2 emissions to be down by just 6-8%. However, such a small drop in emissions would have no measurable effect on the world's carbon concentration or its warming potential. Indeed, 2020 is already on track to be the hottest year ever recorded.

This means that despite the COVID-19 crisis we are having record global carbon dioxide concentrations with an average concentration of CO2 in the atmosphere of 416.21 parts per million (ppm) – the highest since measurements began in Hawaii in 1958.

But worse, considering that emissions have to fall by at least 7.6% every year to 2050 in order to keep global warming below 1.5C (above pre-industrial levels), this internationally agreed target now feels alarmingly unachievable.

We talked about how capitalism and the world are changing or have to change, so let's focus for a moment on the other big overarching theme of ESG and green investing. In May, a headline in our daily Alternative Market Briefing newsletter was, "ABN AMRO axes Janus Henderson found over low sustainability score." The percentage of asset owners that have adopted sustainable investment practices rose to 80% in 2019 from 70% in 2017, according to a new survey by the Morgan Stanley Institute for Sustainable Investing and Morgan Stanley Investment Management. Any comments?

Chris Beres: This is something I've paid a lot of attention to over the past couple of years. I think that for a while, there was some market skepticism in the U.S. that it was kind of a marketing ploy or that it would drag on your returns, but around the middle of 2019, just in talking to investment teams and to sales people, it seems like a switch was flipped in the market and people really started, at least in America, to buy into the concept.

One reason for that, I think, is that people realized that there is actually money to be made by investing there. Historically, a lot of fundamental investors have had a strong focus on the G part of ESG, on governance, and, of course, it makes sense that investing companies with good management and the governance that comes along with that will lead to better outcomes and a reduction in risk. I think the E and potentially the S, is really where future opportunities lie.

Like I mentioned earlier, the growth of renewable energy has become substantial in Europe and has made of lot of money in the last year or two. I think, investors just need to see the right structures and enough investible opportunities to directly access investments with attractive E, S, or G trends. It can be a little bit more difficult to access in the public space, in securities, as the opportunity set in equities at least just isn't as large, but definitely, in the private asset side, we see a lot of interest and many opportunities in infrastructure funds or renewable energy focused funds in particular. That is a growth area and will only become bigger and bigger as I think people can see those creating value.

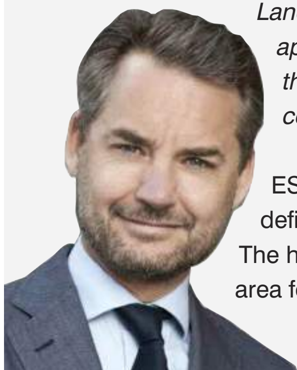
Lisa Head: We've definitely noticed more interest in ESG by institutional investors and Boards lately along with more fund managers focusing on ESG.

I know Weaver's ESG Reporting practice has been talking to more businesses and people within the investment community about **standards in ESG reporting** and how to offer assurance over the reporting. We think ESG will continue to be a growing topic of discussion, especially as investors and Boards focus on issues like sustainability and ESG and if they see strong performance from these managers. I also agree with Chris that renewable energy has become more substantial in Europe, and our team is talking to more people in the U.S. about renewable energy.

Chris Beres: A bit in contrast to the state of renewable energy in the U.S., we see tremendous activity and amounts of **capital destruction related to shale.** I do not know if any shale producers actually made money for their investors over the past five years.

There has been criticism that the oil executives paid themselves handsomely, made themselves rich, burned through money, and made their investors poor, and indeed it's quite hard to find any sort of long-term, sustainable positive return on capital in shale. It has been really challenging for five, six years plus, and I think the time has come where people are going to see how much money has been lost in investing in E&P companies, in servicers, midstream, and start to look for other ways where they can actually make money in energy in a sustainable fashion for themselves and their investors.

Cedric Kohler: From a European perspective, ESG is something that investors are taking very seriously and is here to stay. If anything, this crisis has shown that ESG has paid off given the underweight to the energy sector.



ESG is making its way to hedge funds but not fast enough in my opinion. Barclays just released a survey "Hedge Fund ESG Landscape." About 80% of hedge fund managers have nothing within the ESG space (products or firm approach) and those who do have a very simple approach based on exclusion lists. Only about 20% of the managers are implementing something at the firm level or are UN PRI signatories. So, my first comment is that many things still need to be done within the hedge fund space.

ESG investing is also a challenge because if you talked to three different investors you will have four ESG definitions and compliance requirements. There is not one uniform definition, and this is a big challenge. The hedge fund industry is smart, and that's why I believe they recognize that there is too much of a grey area for the moment on what needs to be done.

Peter Fletcher: What the virus has done is pumping up our imagination of what things can be, so now let's direct it at the bigger problems at hand. Do you remember when Cape Town, a city of like 5 million, ran out of water? We got a water issue globally. Or look at the fires in Australia – I was in Australia in December 2019, and it scared the hell out of me.

All these things are coming back and one question I keep looking at is, **"What is growth?"** The world cannot keep going on this way or stay in the same tracks a lot longer. I personally think we are going to have the most fundamental changes of everything. Even capitalism is up for questioning and you could argue that this virus has happened because of the growth in China. We see many families investing together in sustainable other areas and growing quite dramatically, so they are putting real money to work.

Let me come back to how the economic model might be changing. If you look at last year, everybody wanted to do deals. Everybody had a "monkey mind," which is actually a Buddhist term: 400 emails a day, let's get another deal done! Let's do this and that – and then all of a sudden, everything stopped. People are reflecting now, and a lot of those deals are going to unwind. They are just not going to happen.

Yes, we may get back to some sort of normal we had, but also, everybody's life has changed. Thinking about family, future, kids, other generations – we have to make certain changes, and I think they are going to happen. How is it going to happen, I do not know yet. I read a lot of science fiction because science fiction tends to become reality. Every one of a certain age like me or older will agree that the developments we were part of are truly mind-blowing, and I think it's going to be even better as I strongly believe we will be having the most amazing time as we come out of this.

David S. Rose: The whole angel, venture, and start-up world is, of course, very much focused on the future. And I personally happen to be even more focused on the future than most of my confreres. Living 10, 20, 30 years ahead of everyone else is what entrepreneurship and true innovation is all about.

I would also add that a lot of the ESG movement started in the early stage world. It's just baked into their DNA, and not only the so-called "social ventures" but virtually every company we see. In that world it is not even called "ESG," nor is it a big

governance matter, but rather is already a natural part of their business model, structures, and aims.

Regarding Peter's question about the future of capitalism, I think that is one of the inevitable results of the explosion in technology and connectivity. We are seeing a fascinating case right now of protectionism and insularity with people voicing things like, "Oh, the entire U.S. supply chain and all of our masks and PPE and vaccines and reagents are coming from China. So quickly, we have to build everything here onshore, cut our supply chains, keep everything local!"

That is, to some extent, a logical and rational response to what we have just experienced in the last 60 days. But I don't think it is sustainable over the long term. If you take a view of this over decades, we are looking increasingly and inevitably at a world of globalization. For better or worse, we are in Marshall McLuhan's Global Village. This virus is going to be a temporary setback, a temporary re-focusing as we strengthen internal, local supply chains, but eventually, **globalization is going to pick up again.** I think that we are on the way in the not too distant future to a truly globalized world. It will be fascinating to see how that plays out politically and economically.

Matthias Knab So, the trade wars we are having right now, David, will they just phase out?

David S. Rose: The question here is "over what time frame?"

As history shows us, right in the middle of the period from the Roaring 20s to the Roaring 50s…we had World War II.

If you are a futurist but a pessimist, you'll say, "the world's not going to survive to the Technological Singularity because we're going to blow ourselves up or have climate crisis and destroy humanity." But since I feel certain that the world will survive, I believe you have to be at least a 51% optimistic that we will figure out ways to get through all this, on our way to a land of plenty and abundance in the future. There will be clearly trade wars and dislocations in a globalized world where you have to deal with an international supply chain and global pandemics. And there is, and will be for some time, a focus on this, but I think that inevitably we are leading to a world of globalization. That's my take.

Peter Fletcher: Still, David, a few things are bothering me a bit when I look into the future. One, I do have a concern about **inflation.** Just take flying, it's going to cost a lot more when people fly or consume other things, also because the real costs of things will be impacting prices, think about the whole discussion of carbon where a lot of costs are still socialized.

Another area that really bothers me more than the virus because I know we'll get out of that one, is facial recognition. In December, I went from Canada, to U.K. back to Canada to Australia and I got into those countries easier than I got into our local dump because of facial recognition.

A country like China has now got like 500,000,000 cameras up filming their citizens, and now

putting in one billion. What kind of society is that going to be when every aspect of your life is controlled? I had dinner with a friend in the Cayman, she was in Australia, they have a place there. And she was collecting her VAT form, and instantly they found her records and said, "Alright, you were flying from such and such to such and such," all based on facial recognition. It's impacting everybody's life day to day, and I don't know what that leads to going forward because anywhere you go, anywhere you do, all sorts of people will know who you are, where you are from, and where you are heading to. So that worries me a lot, I'll leave you with that thought.

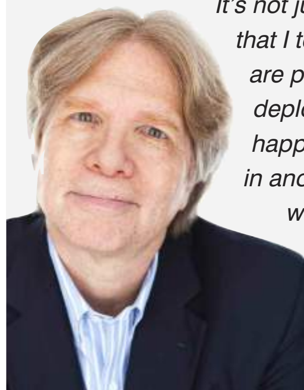
David S. Rose: I think we are dealing with an even bigger issue here: that facial recognition is just one piece of universally advancing technology. If you scale up facial recognition, you're then also talking about audio recognition: things like ShotSpotter, which is already used by the New York City Police Department, or Boomerang, an advanced version used by the U.S. military in Iraq.

Did you know that the average lifetime of an Iraqi sniper as measured in the number of shots he takes is… one? Right now, in Iraq, we have deployed guns that when they hear a sniper shot, immediately triangulate it, then aim an automated turret and fire a shot right back to the gun (with a human in the loop), and boom! That's it. So it's not just facial recognition, it's audio recognition and literally everything in the ambient universe tracking us and understanding who we are. And at some point…

Peter Fletcher: How did you find that out, David? How do you find such stuff?

David S. Rose: In the early stage world in which I live, all of these advanced technologies are floating around and are common knowledge. I can point you to many examples of this kind of stuff across a wide range of disciplines.

As a technologist and a futurist, I'm always looking at new technologies, and everybody I deal with in the venture space is looking into companies that are doing such things. For those interested in how personal investing should be considered in light of advancing technology, a great place to start would be the book *The Truth About Your Future: The Money Guide You Need Now, Later, and Much Later*, by Ric Edelman. He wrote it after returning from Singularity University and having his eyes opened to the concept of exponentially advancing developments.



It's not just facial recognition or audio location or cellphone tracking or ambient surveillance. One of the things that I teach in my Singularity University classes is that today if something can be done, it will be done. We are past the level where any individual or any government can block technological development or deployment. If you outlaw nuclear weapons, no problem. Some guy at a flea market in Pakistan will be happy to sell you the plans for your own nuclear weapon. You want to outlaw cloning? Fine, but somebody in another country has already cloned sheep, pigs, deer, horses, and bulls…and are no doubt already working on humans.

Since near perfect facial recognition obviously can be done, that means it is here to stay and will metastasize across use cases…unless seven billion people stand up, say "no to facial recognition"

and tear down the cameras. But I doubt that will happen because ultimately the benefits as they perceive them – such as faster entry through airports, touch-less exchanges of credit card information, more personal security, and so on so forth – will outweigh for them the perceived privacy invasion.

Therefore, I do believe that we are facing an inevitable total loss of privacy but at the same time an inevitable acceleration of convenience and connectivity and access. For me, the more interesting questions for the world of the future are *"how do you deal with this?"* and *"how do you make investments if you think that is where the world is going?"* which is what I do.

Peter Fletcher: David, if you can find a bot that can-do financial regulators' forms, I'd be most grateful, and I am sure that's going to be great business, too. I've got one here, it's 75 pages and wants to know everything, almost to the point of my eye color, my hair color, and my weight before the crisis or after – it's just mind blowing.

[laughter]

David S. Rose: I've got one of those too, so, we'll talk about that offline!

Matthias Knab Of course, with all these advances in technology and data collection, as David described it, the idea of governance and control and who owns what and who benefits from it really becomes absolutely paramount. So, I am inserting a bit of Peter's previous concerns. Any thoughts on the governance part here?

David S. Rose: Matthias, I think that's a whole other Roundtable talk!

Matthias Knab For sure, I hope to have you all back at another Roundtable soon!

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