



7 March 2018

# AIF Magazine Amsterdam Investor Forum

For professional and qualified investors only



# The **Amsterdam Investor Forum** is a landmark event in the Netherlands for the Alternative Investment Industry

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# ABN AMRO Clearing Prime Services

For more than 30 years, ABN AMRO Clearing has been providing multi-asset execution, clearing, custody and financing services



## A truly trusted partner

- » Wholly-owned by ABN AMRO Bank N.V.
- » One single entity providing all services and products
- » Award-winning client services
- » No proprietary trading
- » Ring fenced assets



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- » Supporting 160+ exchanges, MTFs, dark pools, ECNs and FX single bank platforms
- » Acting as a custodian with multiple direct connections to central securities depositories (CSDs)



## Securities borrowing & lending

- » Shark II: global locate tool
- » Auto-borrowing programs
- » Deep liquidity pool



## Global execution services

- » Direct Market Access (DMA) on 55+ exchanges globally
- » DMA via terminal based trading and FIX gateway
- » Sponsored access
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- » Advanced execution services



## Risk management & financing

- » Dynamic & real-time risk management
- » Proprietary and market leading correlation haircut model adopting the principal component analysis (PCA)
- » Sophisticated correlation across asset classes and markets, optimizing client capital efficiency



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- » Robust proprietary clearing infrastructure supporting high-volume capacity
- » Managing centrally cleared and OTC products on all markets
- » Proven reliability clearing on average 20 million trades per day across the globe

## Colophon

### Editorial board

Delphine Amzallag  
Marie Demolin  
Laura de Haan

### Design

Kollerie Reklame-Advies & Promoties

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Welcome to the 7<sup>th</sup> Amsterdam Investor Forum!

On behalf of ABN AMRO Clearing, it is my pleasure to welcome you to our annual Amsterdam Investor Forum. We are delighted to see how much interest this forum is gathering since its launch in 2011. This reminds us how critical professional forums are to stimulate thoughtful and relevant debates on the challenges and opportunities that our ever-evolving industry faces.

Previous years have been turbulent for alternative investors and managers. Tumultuous macroeconomic trends, geopolitical shifts, conservative monetary policies, waves of regulations and erratic volatility, represented the daily challenges for managers to generate alpha. 2017 Brought its set of challenges, notably on the regulatory side, but will be remembered as a year of growth in alternative assets and strong performances.

The hedge fund industry continues to grow by approximately 10% boosted by net new inflows and solid returns. Alternative managers have adapted to a new landscape through innovation, Artificial Intelligence, Smart Data, new assets and advanced models... The Active/Passive investment debate has suddenly taken a different direction than in previous years.

What can we expect in 2018? The industry has achieved an important milestone with the implementation of MiFID2 and further clarity around Basel III, leading to more regulatory stability and a focus on growth & innovation. Similarly, the world economy is showing positive trends and the Brexit perimeter is better defined. At the forefront of innovation and disruption, Blockchain and cryptocurrencies have fostered a lot of attention and emotion recently, and will be under increased scrutiny going forward. Hence, we can expect a year of sound performance, innovative trends and surprises.

The 2018 edition of the Amsterdam Investor Forum will focus on these changes and the opportunities for alternative investors. We have endeavoured to cover the most important topics shaping the industry, and will address the directions for 2018. Throughout the forum we will dive into macroeconomic trends, the evolution in asset management, investor strategies, cryptocurrencies, data and quant models.

As a leading provider of prime clearing and asset services to alternative investors and managers, I am honoured to host the Amsterdam Investor Forum 2018. I hope you will find this 7<sup>th</sup> edition of the forum valuable and will appreciate the impressive line-up of industry experts. I sincerely thank you all for your participation, your on-going support since 2011 and your generous contribution to the charities. This is what makes the Amsterdam Investor Forum a success every year.

Yours sincerely,

[Jan Bart de Boer](#)

Chief Commercial Officer  
ABN AMRO Clearing



# Agenda

## The Amsterdam Investor Forum, 7 March 2018



<b>8.30 am</b>	<b>Registration</b>	
<b>9.00 am</b>	<b>Welcome and opening</b> Delphine Amzallag, Head of Relationship Management Prime Europe	<b>Location: Auditorium</b>
<b>9.15 am</b>	<b>Panel: A global macro perspective: analysis and forecast</b> <b>Moderator:</b> Han de Jong, Chief Economist, <b>ABN AMRO Bank</b> <b>Panellists:</b> Isabelle Mateos y Lago, Chief Multi-Asset Strategist, <b>BlackRock</b> Erik Norland, Senior Economist, <b>CME Group</b> Guy Verberne, Chief Economist, <b>PGGM Investments</b>	<b>Location: Auditorium</b>
<b>10.00 am</b>	<b>Panel: Brave new world in asset management</b> <b>Moderator:</b> Marianne Dernies, Head of Business Development, <b>ABN AMRO Investment Solutions</b> <b>Panellists:</b> Graham Mason, CIO, <b>M&amp;G Investments</b> Fabrice Cuchet, CIO Alternative Investments, <b>Candriam Investors Group</b> Max Rijkenberg, Head of Legal EMEA, <b>PAAMCO</b>	
<b>10.45 am</b>	<b>Coffee break</b>	<b>Location: Ground floor</b>
<b>11.15 am</b>	<b>Keynote: Stephen Kirk, CIO, Pelham Capital Ltd</b>	<b>Location: Auditorium</b>
<b>12.00 am</b>	<b>AIF Factor</b>	
<b>12.45 am</b>	<b>Lunch break</b>	<b>Location: 1st floor</b>
<b>1.45 pm</b>	<b>Panel: Trends and dynamics driving the investment decisions</b> <b>Moderator:</b> Andrew Gibson, CEO, <b>International Asset Management (IAM)</b> <b>Panellists:</b> Alan Dunne, Managing Director, <b>Abbey Capital</b> Gerben De Zwart, Head of Quantitative Equity Research, <b>APG</b> Marc Gauthier, University Treasurer & Investment Officer, <b>Concordia University</b> Fadi Fattouh, Senior Vice President - Investment Research, <b>EnTrustPermal</b>	<b>Location: Auditorium</b>
<b>2.30 pm</b>	<b>Panel: Crypto fever, new horizons or another tulip bubble?</b> <b>Moderator:</b> Jiri Krol, Deputy CEO & Global Head of Government Affairs, <b>AIMA</b> <b>Panellists:</b> Isabelle Mateos y Lago, Chief Multi-Asset Strategist, <b>BlackRock</b> Kevin Jacobs, Senior Portfolio Manager, Digital Strategies, <b>R.G. Niederhoffer Capital Management</b> Yves Choueifaty, CEO, <b>TOBAM</b> S. Michael Moro, CEO, <b>Genesis Global Trading</b>	<b>Location: Auditorium</b>





3.15 pm	Coffee break	Location: Ground floor
3.45 pm	Keynote: Mark Gallagher, F1 Motivational Speaker	Location: Auditorium
4.30 pm	<b>Panel: Quants: taming the data monster</b> <b>Moderator:</b> Bartt Charles Kellermann, Founder and CEO of Global Capital Acquisition <b>- the Battle of the Quants</b> <b>Panellists:</b> Herman Van der Sluis, Senior Portfolio Manager, <b>PGGM</b> J. Scott Kerson, Senior Managing Director & Head of Systematic Strategies, <b>Gresham IM LLC</b> Nicolas Gaussel, CEO & co-CIO, <b>Metori Capital</b>	Location: Auditorium
5.15 pm	<b>Closing Remarks</b> Delphine Amzallag, Head of Relationship Management Prime Europe	Location: Auditorium
5.30 pm	Cocktail reception and networking	Location: 1st floor

Please visit our [website](#) for further information.

## ABN AMRO Headquarters

Auditorium, Gustav Mahlerlaan 10, 1082 PP Amsterdam  
the Netherlands



# 5 funds compete for first prize

What are today's most-compelling, persuasive, provocative and entrepreneurial investment approaches? For the 6th year in a row the AIF Factor invited alternative investment managers to pitch their propositions. Now it's up to you to pick the winner from among these five pitches – published in their original, unedited form to ensure submission integrity.

## Pitch 1:

### Raptor Commodities Fund



A relative value commodities strategy with a focus on volatility trading.

In the aftermath of the Financial Crisis many banks and funds have withdrawn liquidity and risk-taking from commodities markets; leading to increased inefficiency.

Whilst high frequency traders (HFT's) and trading houses have stepped in to provide liquidity and financing in the front end of the curve, maintaining smooth market function – there is an opportunity remaining for smaller funds to monetise distortions in the options and deferred futures space. Raptor looks to focus on these niche opportunities and generate pure uncorrelated alpha for investors.

We invest in: Futures, Forwards and Options

The fund aims to achieve double digit returns by exploiting market distortions in uncorrelated, capacity constrained opportunities, which larger funds and institutions are unable to enter into.

## Pitch 2:

### Dutch Darlings Fund



Behavioural finance is the science that studies the behaviour of people, when they make financial

decisions. It appears that people (also investors) often do not act rationally in "financial stress" situations, but are guided by their emotions. The Dutch Darlings Fund recognizes these emotions and uses them to achieve more return than the index "AEX".

The Fund only trades Dutch shares, long and short. In hard times, the Fund protects its positions using derivatives, in good times the Fund uses leverage to achieve higher returns. Target yield is 12% with a volatility up to twice the index, but a maximum loss of 35% (the AEX index has lost 70% of its value twice in the last two decades). The actual result of this strategy is more than 20% per year, when Frans Schreiber started to manage the Fund 2015. Morningstar ranks the fund as the best fund of its category (Alternative, Long Short Europe) looking back 3 years.





## Pitch 3:

### GreshamQuant ACAR Fund



Confronting a world of low and correlated expected returns, GQ-ACAR seeks to harvest orthogonal, double-digit alpha by applying state of the art trend-

following technology to markets at the periphery of the established futures landscape – markets which are less saturated with speculative capital, exhibit intrinsically low cross-correlations, earn high carry, and present significant barriers to entry.

GQ-ACAR investors benefit from:

» **Portfolio Diversification**

Breadth is anchored by the physical, temporal, and geographical heterogeneity of 60+ commodities markets, delivered across 6 time periods in 15 countries and 5 continents.

» **Uncorrelated Returns**

A singular focus on alternative commodities yields lower correlations to traditional CTAs, discretionary funds, and long-only and alternative betas.

» **Unique Market Access**

Proprietary alpha generation from bespoke exposure to access-constrained 'frontier' markets.

» **Research Excellence**

The team features pioneers of alternative markets trend following and extensive experience at the world's leading CTAs.

» **Institutional Infrastructure**

A \$7 billion manager with 30 years of operational and risk-control expertise to safeguard client assets and overcome barriers to entry.

## Pitch 4:

### Hellebore Credit Arbitrage



Hellebore Capital is a quantitative Credit Derivatives Hedge Fund. Our core strategy is Credit Index basis arbitrage.

It is a pure arbitrage with perfectly offsetting contractual cash flows and convergence is certain over time, regardless of market circumstances. The Hellebore Credit Arbitrage fund was launched 4 years ago and following its success we are now launching a Systematic Credit Basis Arbitrage Strategy in a managed account format.

This is a systematic investment strategy in the On-The-Run Credit bases. The strategy takes profits on crossed thresholds. Full clearing of the basis packages allows for a cost-efficient construction of the portfolio. Technology is key for both monitoring arbitrage opportunities across 200 different indices and executing trades to capture the basis. We have built a strong and scalable platform and are now entering an exciting new phase of growth.

## Pitch 5:

### Firth Asian Systematic Equities Fund



The strategy is focused on adding through-the-cycle alpha with a premium Sharpe ratio, a process which includes unique exploitation of hidden macro information in stock level data.

At its core this is multi-factor stock selection (essentially mimicking the actions of a stock-picking fund manager in a systematic manner), with a portfolio formation process that results in some very attractive risk characteristics.

Specifically, it is designed to capture most (and often more) of market upside in a rising market, but a much smaller proportion of downside in a falling market.





# Questions left open by a “feel good” scenario

This article was written on 23 January 2018.

In early 2018, most investment strategists, including those who were previously bear minded, have subscribed to the scenario of a world economy that is back on its feet. Inflation is low and equity markets are generally considered the main asset class to generate return in the medium term.

Most players want to stay in the momentum game with the hope of reducing risk later in the year. Although as comfortable as a warm bath, this consensus thinking deserves scrutiny.

Risks were particularly well rewarded in 2017 (as measured by the return-to-risk ratio graph, borrowed from my friend Linus Nilsson). But a replay in 2018 would be heroic.

Most investment strategies are articulated around what we think we know about the future, and there is a compulsion to accumulate evidence to support our view. Trying to separate the Known Unknowns from the Unknown

Unknowns (à la Donald Rumsfeld) is a fine line.

My purpose here is to acknowledge the questions that arise from the current situation of a positive consensus view on markets in 2018. These questions are not academic. The gap between our mental constructions of the future and the actual reality will trigger market reactions and our portfolios should be prepared.

## What GDP doesn't capture

The traditional understanding of the “natural” economic growth potential (i.e. 2% for the US) can be challenged by the avalanche of changes stemming from algorithms and the big data revolution. In GDP and productivity measures, the weight of the old economic sectors are



overrepresented in comparison with the sectors driving structural changes. It is important to judge the slack in capacity utilisation, which will absorb inflationary pressures. So far, inflation has bedevilled central banks.

### Normalisation of central bank policies?

While the idea of “returning to normal” is pervasive, can it genuinely be defined as a return to the status quo before the global financial crisis? If it is, then what is the terminal rate of interest ( $R^*$ ) that would enable a return to non-therapeutic central banking?

Central bankers, at least within their research departments or at the BIS, recognize their limitations in understanding the inflationary process and the complexity of policy setting. The amazing emergence of crypto assets, the rise of blockchains applied to financial instruments, new forms of credit, asset indexing and the digitalisation of processes and decisions pose new challenges. In this new world, the anchor role of interest-rate setting or inflation targeting may be too narrow and interest rate expectations may be less relevant for the future. Central banking is more complex than media-driven market participants think.

### Stronger cyclical forces may imply higher financial volatility

Simply said, the prevailing low volatility is a man-made, post-great financial crisis phenomenon. It is a legacy of low economic growth, hyper-accommodative monetary policies and the emergence of short volatility trades among asset managers and speculative traders. Higher economic growth and incrementally tighter monetary policy could result in a volatility regime higher than the comfortable range of 10 to 12% seen for the CBOE VIX index.

Volatility is also liquidity dependent. Low volatility can be interpreted as a reaction to the hyper liquidity created to avoid liquidity black holes. Will the momentum trades survive within a new volatility regime or to changes in liquidity conditions?

### Equities to be more interest-rate sensitive

Past analysis of the interest-rate sensitivity of the equity markets have limited relevance to assess the future. Equities are now bought on the TINA (there is no alternative) mantra, as the juicy return of bonds has been exhausted. We can probably edge up the monetary policy sensitivity of the stock market. Stocks can endure higher US rates based on the narrative that higher bond yields are the result of higher growth and/or inflation. But can the rush to pile up in S&P stocks survive a US 10-year Treasury yield above 3%?

### Challenges to building resilient portfolios

Nassim Taleb, (a regular guest of the AIF) effectively developed the importance of using non-correlated assets to develop “anti-fragility” in portfolios with built-in resilience to the unknown. The exercise might be difficult and pricey. One rule of thumb is to be logical. If our main scenario is biased toward positive results (let’s say by a 60% probability), and the alternative scenario is 40%, then the proportion of non-correlated (or less correlated) assets in the portfolio should consistently be around 40%. Is it possible to create this logical division?

### Leave a portion for the Unknown

Pure quantitative risk management is necessary, but not sufficient, to approach the challenge of foreseeing the future. Political risk, for example, after being overestimated in 2017 is probably now underestimated and under-priced. The market is apparently accepting the coexistence of positive macroeconomics and political risk. But history reminds us that political risk can be like dominos falling. The new regional order emerging in the Middle East, for example, with a rising tension between Iran and Saudi Arabia, can perpetuate higher oil prices, defying all current predictions. This, in turn, would have implications for energy markets, world price stability, bond market equilibrium and volatility. This type of risk requires building insurance or non-correlated optionality into the portfolio.





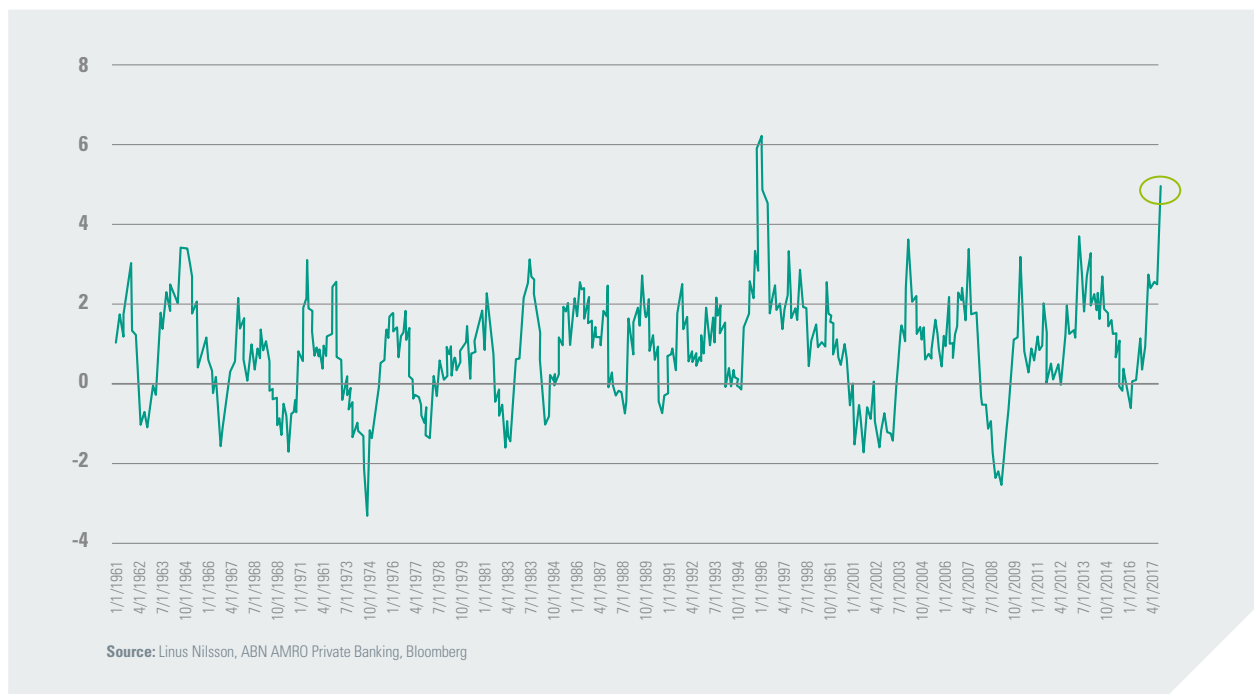
## Behavioural biases survive technology

As rightly defended by Richard Thaler, the no-nonsense Nobel Prize in Economics winner of 2017, it is not certain that the generalisation of algorithms in finance has killed behavioural biases. Investing automation may actually amplify these biases, since the underlying programs still reflect human behaviour. The new (post-2008) generation of quant-based and index-related trading models are not yet tested under slowing economic conditions or, even, recession.

## Conclusion

The current positive context for investing is constructive for return generation and the Amsterdam Investment Forum will certainly broaden our thinking. This is the beauty of the Forum: to foster debate on investment roads less travelled and to explore the ways and means to make portfolios resilient. The Forum is a call to focus on accepting fairly-rewarded risks and on constructing portfolios in the smartest way possible.

**Graph 1:** The price for beauty; S&P 12 month rolling return divided by realised volatility.



**Didier Duret**  
Chief Investment Officer  
ABN AMRO Private Banking\*

\* Views are my own in the context of the AIF audience and do not reflect the current policies of the Global Investment Committee of ABN AMRO Private Banking.



# Five reasons event risk to take center stage in 2018

The year 2017 saw the juxtaposition of heightened policy uncertainty with relatively complacent markets and low volatility, especially in equities. Much of the policy uncertainty may find some answers in 2018. It is decision time for NAFTA and Brexit. Elections will be in the spotlight, too. Italy in March, Mexico in July, Brazil in October, and November 2018 will see a ferociously contested U.S. election for the entire House of Representatives and one-third of the Senate.

At the Federal Reserve (Fed), the focus will be on inflation and the shape of the yield curve as it decides how aggressively to push rates higher or not. The weather will play a role, too, as we find out if La Niña deepens and brings droughts to Brazil and Argentina or fades away quietly.

Event risk can present some interesting risk management challenges. The two possible outcomes are typically binary in nature, like an on/off switch. Before the event, markets may price an average of the two vastly different outcomes in terms of their impact on selected products or securities. After the event, the market's "average" of the two outcomes will definitely not survive the outcome, as markets move quickly to price the actual outcome as it becomes known. In these types of market environment, options can be a favored risk management tool. In addition, if the probability of a price break or gap is substantial around the time the outcome becomes known, the options prices will add a premium for price gap expectations in addition to the typical estimate of future volatility. This means that implied volatility calculations using models that assume price gaps/breaks do not exist (i.e., basic Black-Scholes-Merton) may over-estimate volatility by the amount of the potential price break premium.



There are also risk management considerations relative to different types of event risk. For example, political elections have known dates and unknown outcomes. Weather events, such as droughts, do not have known dates, but the general conditions that could result in a drought are known and can be monitored. In these cases, markets will price potential outcomes as probabilities shift.

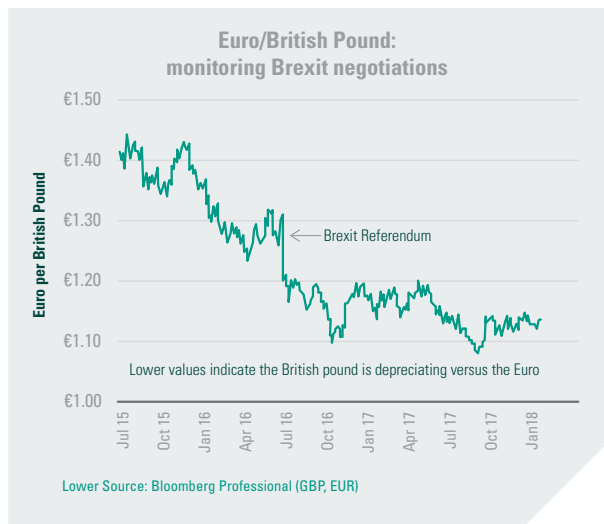
Here are our favorite event risk challenges for 2018.



## 1. Brexit, Trade, and the Irish Border

Now that the UK has agreed to pay a substantial sum to the European Union (EU), the Brexit negotiations shift to trade relations and the Irish border. On trade, both sides have a lot to lose, and while they may seem far apart on many details, the will to find a compromise seems to be gaining traction. On the Irish border question, it is less clear. The Democratic Unionist Party (DUB) in Northern Ireland provides the votes in Westminster that Conservative Prime Minister Theresa May needs to remain in power.

DUB wants both an open border with Ireland and that Northern Ireland is treated exactly like Scotland, Wales, and England as part of the UK. This presents May with a conundrum. A workable compromise is not in sight. If a compromise cannot be achieved, a new election in the UK and substantial FX volatility may follow.



## 2. Trade & Immigration

NAFTA will be front and center in Q1/2018, and any deal or no deal impacts U.S. exports of corn, beef, and natural gas to Mexico, as well as potentially destabilizing the auto industry that is tightly inter-linked across all three countries that includes Canada. Mexico faces a critical presidential election on July 1, 2018. It is hard to see the

current Mexican government making any concessions before the election. Canada does not face elections in 2018, but Prime Minister Justin Trudeau still must look to his future and not appear weak relative to the rhetoric coming from Washington.

For the U.S. Administration, the achievement of passing major tax legislation in December 2017 may lead to a desire to push harder on trade and immigration issues to notch another victory or two. Thus, the probability of the U.S. triggering the 6-month unilateral withdrawal notice clause in NAFTA has risen.



And, how the immigration dispute is settled may determine whether the Federal Government in Washington is shut down or stays open as the January 19 funding deadline approaches in the U.S. Congress. All sides are digging in their heels; event risk is heightened. Any last-minute theatrics around a Federal Government shutdown would activate volatility for markets in U.S. Treasury bonds, equities, and the U.S. dollar (versus euro, especially). Market participants have grown complacent in dealing with uncertainty, so it would be the actual event (i.e., a temporary shutdown) and not the uncertainty that would create volatility in markets.





### 3. Elections around the Globe

As noted, there are a slew of critical elections in 2018.

The Italian elections in March will focus on the issue of budget austerity and EU policies. This will put the euro in the headlights.

The Mexican election could put the country between a rock and a hard place, with no NAFTA compromise possible. Here the focus is on the Mexican peso, natural gas, cattle, corn, and the Canadian dollar.

The Brazilian election could set the country on the path to further reform and economic growth or spiral the country back into political uncertainty. Brazil's Presidential election is potentially a two-part affair. If no candidate gets 50% of the vote in round one, then three weeks later there is a second round pitting the top two vote-getters against each other. The Brazilian election potentially impacts the Brazilian real, as well as commodities such as corn and soybeans.

In November, the Democratic Party in the United States will make a concerted run to take back control of the House of Representatives and deny the Republicans gains in the Senate. A Democratically-controlled House would spell even more theatrics from Washington, impacting equities, bonds and the dollar. In short, political event risk is back on the calendar for 2018, with a vengeance.



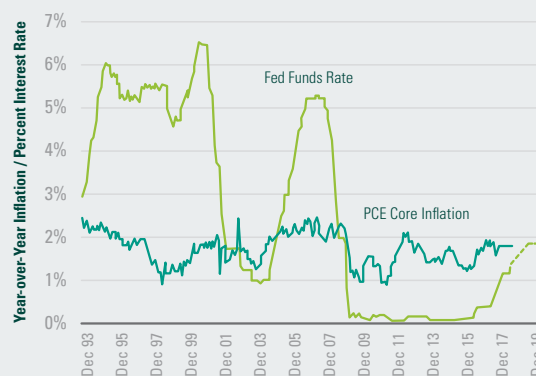
**Election Calendar 2018**

Italy Parliamentary Election	Sunday, March 04, 2018
Mexico Presidential Election	Sunday, July 01, 2018
Brazil Presidential Election Round #1	Sunday, October 07, 2018
Brazil Presidential Election Round #2 (if needed)	Sunday, October 28, 2018
US Congressional Elections (Full House, 1/3rd Senate)	Tuesday, November 06, 2018

### 4. Fed, Inflation, the Yield Curve and Rates

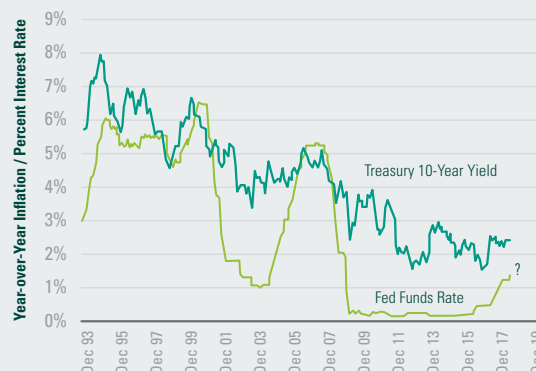
With the political election rhetoric flying in Washington, the Fed will probably want to lay low, and certainly will not want to be blamed for causing a recession. The Fed will be debating and eyeing the shape of the yield curve. Statistically, the yield curve is the best predictor going for future volatility and a recession should the curve flatten or become inverted. So, unless core inflation flashes a warning sign, the Powell-led Fed may take its cues from the yield curve and halt the tightening after one or two more increases to avoid flattening the curve too much.

**US Core Inflation and Federal Funds Rate**



Lower Source: Federal Reserve Bank of St. Louis FRED Database (PCEPILFE, FEDFUNDS)

**US Treasury 10-Year Yield and Federal Funds Rate**



Lower Source: Federal Reserve Bank of St. Louis FRED Database (PCEPILFE, FEDFUNDS)



## 5. And now for the Weather...

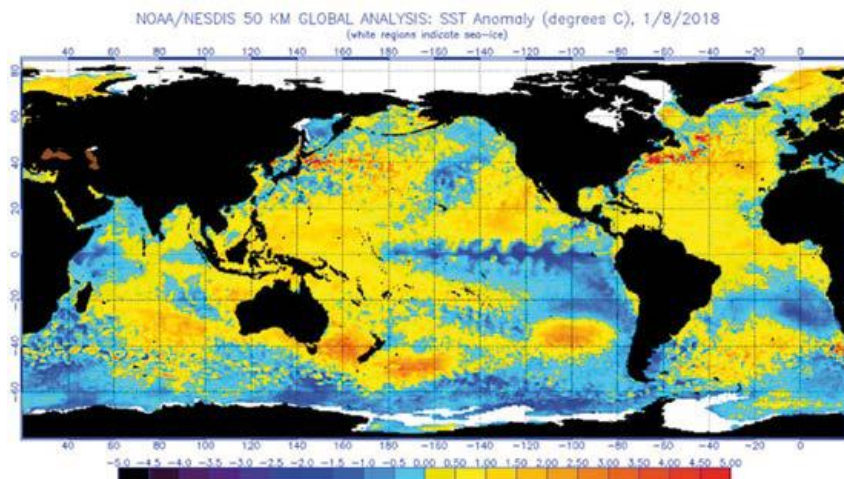
La Niña is here. From an ocean surface temperature perspective, La Niña is colder than usual waters along the Pacific equator – the opposite of the warmer than usual waters occurring with El Niño. While these two phenomena are opposites in definition, one should not assume the effects are opposite, as each event has its own special character.

This La Niña is not too strong yet, and some experts suggest it may weaken sooner than previous episodes.

Even so, meteorologists and farmers alike will be watching for signs of deepening La Niña and with

it, increased possibilities of drought in the corn and soybean regions of Brazil and Argentina. La Niña, or more correctly the absence of El Niño, also increases the risk along the east coast of the U.S. and in the Caribbean of more severe hurricanes in the Fall of 2018, as was witnessed in 2017.

*All examples in this report are hypothetical interpretations of situations and are used for explanation purposes only. The views in this report reflect solely those of the author(s) and not necessarily those of CME Group or its affiliated institutions. This report and the information herein should not be considered investment advice or the results of actual market experience.*



Source: National Oceanographic and Atmospheric Administration (NOAA).



**Bluford "Blu" Putnam**  
Managing Director and Chief Economist of CME Group

Bluford "Blu" Putnam has served as Managing Director and Chief Economist of CME Group since May 2011. With more than 35 years of experience in the financial services industry and concentrations in central banking, investment research, and portfolio management, Blu serves as CME Group's spokesperson on global economic conditions.



# Allocator insights

EntrustPermal has been in the allocation business for a long time and at the forefront of alternative investing. How has the business evolved and are there any new challenges you are facing?

We have indeed been in the allocation business for a long time and as you know, EntrustPermal is the product of two firms with a long and successful history in hedge fund investing; Permal with over 40 years, Entrust with over 20. Bringing that experience together has deepened our expertise much further.

Having said that, the industry is in a state of flux, and is being disrupted and challenged by a number of forces. As a consequence, our business has evolved. We have become a diversified “alternatives” firm and not just focused on hedge funds. A lot of institutional and High Net Worth clients that we work with are expecting a lot more than the old style multi-strat FoHF. They seek investments that are more targeted and higher octane, rather than the “one size fits all”, moderate-risk, moderate return approach. The combination of the two firms has really enabled us to sharpen our focus in new, higher value-added areas.

How many managers does the business see and how many make the cut?

We have an invested list of around 100, and we try to keep it under 100 so that we are focused and do not have duplications in exposures or over-diversification. Our list is not static though. We see 200 opportunities a year on average that we consider for investment. However, our selection rate is very low. We are averaging about a 10% selection rate, although each year is different.

Do you allocate to new or small managers? Under what circumstances?

We are open to looking at new and smaller managers for a couple of reasons. First, they tend to be nimbler and more flexible. For example, we like long/short credit managers under \$1 billion because they have an easier time shorting high yield bonds. On the equity side, we



## Omar Kodmani

Senior Executive Officer and Global Head of International Business Development of EnTrustPermal

Omar Kodmani, CFA, is Executive Officer and Global Head of International Business Development of EnTrustPermal. He was appointed Chief Executive of Permal Group in 2014, having previously been its President. Prior to this appointment, Omar was Senior Executive Officer, responsible for monitoring Permal's international investment activities as well as asset gathering initiatives. Before joining Permal in 2000, he spent seven years with Scudder Investments in London and New York where he developed the firm's international mutual fund business. Prior to Scudder, Omar worked for four years at Equitable Capital, now part of Alliance Bernstein. He is a CFA® Charterholder and serves on the Advisory Board of the CFA® (UK). Omar holds an MBA in Finance (Beta Gamma Sigma) from New York University Stern School of Business, a BA in Economics from Columbia University and a GC Certificate from the London School of Economics.





like sector specialists who don't need to be large, they just need to know their sector intimately and be able to add alpha; healthcare, energy, tech sector funds are good examples of this. We believe that the best returns on the equity side can be found in sector-focused managers.

**With regard to DD, if the manager doesn't pass, do you tell them why?**

Often it is clear to the manager what has gone wrong; so generally, no. Most of the time, the manager doesn't ask. For us, a "no" may not be definitive or forever.

We usually want to keep the dialogue going and keep the relationship because we might invest at a later date or do business in another capacity. For example, at our firm, a large part of our business today is in co-investments which are single ideas that we source from managers. If we can arrive at the appropriate operational safeguards with a manager, we may engage with managers on specific opportunities outside their flagship strategy.

**You have heard the phrase, "You don't get fired for investing in large managers." Is this true?**

It is a phrase that we have heard people live by, but we don't because there is very little value-added for a firm like ours to invest in names that everyone wants to buy after they become famous. Especially in today's world where household names in our industry are increasingly, visible, easy to get information on and accessible.

**What makes you want to redeem from a manager?**

It can be a number of factors:

- » Performance that doesn't meet expectations.
- » Not taking enough risk is another one.
- » Getting too big for the strategy or too small to be viable
- » Or, other operational reasons

**Is performance the most important aspect when allocating to a strategy?**

No. It is not the most important. Although performance is clearly important, there are other factors need to be considered. For example, the manager's edge is probably number one. The manager's edge comes with a number of considerations, i.e. what makes them different?

How did they get to that point of differentiation? Is the strategy easy to copy or replicate?

We are also very focused on the manager's infrastructure, by that we mean the depth of the team, the structure of the organization, checks and balances in the firm. Our operational due diligence is very comprehensive. Another crucial point is whether the idea make sense within the current context. You can be excellent in a certain field (e.g. energy) and have great infrastructure, but if there is no context for your strategy then there isn't much point.

**What do you think EntrustPermal does differently?**

I think what we do differently is that we cut through the clutter and really try to find the edge in the manager. It is crucial that the manager's edge helps improve our investment proposition and investment outcome. That may sound abstract, but if a high-quality manager made it into our approved list, it is usually because they do something special. We may have identified a way to further optimise the strategy through a managed account where we target the manager's expertise in a certain sector or individual opportunity. It could be a single idea that our co-investment program can on-board. It could be our expertise in translating their flagship fund into a daily, liquid UCITS product (because we are active in that market, as well). What we do differently is identify the best attributes of the manager and then translate these attributes into an attractive portfolio for our clients.



**Ole Rollag**  
Managing Principal  
Murano Systems



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# Reshaping capital requirements in Europe. Towards a more proportionate approach?

Global regulatory developments continue to affect the financial markets as well as *ABN AMRO Clearing Bank* and its clients. The main regulatory requirements and developments continue to be centered around capital requirements, especially following the landmark implementation of the Markets in Financial Instruments Directive/Regulation (MiFIDII/MiFIR) framework on 3 January 2018.

It is likely that 2018 will be the dawn of a complete overhaul of the existing capital requirements framework in Europe. Not only will we see a range of dramatic amendments to the bank capital rules in the Capital Requirements Regulation (CRR) that will introduce new exposure measures and a binding leverage ratio, but more significantly a new tailored regime specifically aimed at investment firms. As part of the Capital Markets Union (CMU) Agenda that has the intention to make the European capital markets less dependent on banks, the European Commission (EC) presented a dramatic overhaul proposal in order to define a more proportionate investment firm capital regime.

## Changes to bank-capital rules in CRR

One of the most significant implementations aimed at reducing systemic risk is the EU-wide implementation of Basel III, collectively known as CRDIV and CRR. *ABN AMRO Clearing Bank* and other clearing members continue to be heavily impacted by the leverage ratio as a result of the guarantees it provides to their client positions at CCPs. Under current leverage ratio interpretations, methodologies and guidance, the concept of netting exposures to CCPs for exchange-traded derivatives (i.e. futures and options) is inadequately recognised. This led to an industry-wide effort to advocate for the introduction of a better leverage ratio exposure measure in the form of the Standardised Approach for Counterparty Credit Risk (SA-CCR).

In October 2016, the European Commission proposed a number of amendments to the CRD/CRR framework as part of its mandatory review. This includes the introduction of the SA-CCR as the main risk exposure measure, the fundamental review of the trading as the main market risk method, a binding leverage ratio, a net stable funding ratio and a total loss absorbing capacity for the largest institutions. The leverage ratio calculation methodology is in line with measures advocated for by the industry. The Council of the European Union and European Parliament are currently determining their respective positions on this file, with a political compromise expected in the second quarter of 2018. It is expected that the rules will gradually enter into force from 2019 onwards.

Furthermore, on 7 December 2017, the Basel Committee on Banking Supervision (BCBS) presented the long awaited finalisation of the Basel III reform package, widely dubbed as Basel IV or Basel 3.5. The main elements of the package include:

1. Revisions to the standardised risk measurement approaches for calculating credit risk, market risk, credit valuation adjustment and operational risk;
2. Constraints on using internal models in order to reduce variability in banks' calculations of Risk Weighted Assets (RWA) and ensure greater risk sensitivity and comparability between banks;
3. An output floor of 72.5% (compared to standardised





models) for banks that are using internal models to calculate minimum capital requirements in order to increase comparability between institutions and jurisdictions, and;

4. A revised leverage ratio (LR) exposure measure (based on the SA-CCR) and a surcharge for global systemically important bank (G-SIBs).

All in all, while Basel IV will lead to yet another revision of the capital framework from 2020 onwards it is generally more proportionate in terms of recognising different types of bank business models and risks. It also leads to more consistency in measuring regulatory risks for prudential supervision purposes.

### The Investment Firm Regulation – Friend or foe for the industry?

As part of the Capital Markets Union and Better Regulation agenda, it was the clear intention of the EC to draft a new tailored and fit-for-purpose capital regime for investment firms in order to have a more proportionate regime compared to the framework under the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR). *ABN AMRO Clearing Bank* has been cooperating closely with clients, industry groups and infrastructure providers to advocate for this more tailored new capital regime for investment firms outside the CRD/CRR framework. The EC has formally tabled a formal legislative proposal on investment firm capital requirements in December 2017.

The introduction of MiFIDii and MiFIR saw a great increase in entities that would be classified as investment firms following the implementation of the new rulebook. An unintended consequence of this was that investment firms – depending on the nature and complexity of their business models - would then become subject to a wide range of requirements of the CRR that are primarily aimed at banks, despite the fact that investment firms do not take client deposits. The proposed rules will apply to investment firms active in financial markets in a broad range of sectors such as hedge funds, investment advisors, brokers, asset managers, commodity traders and dealers on own account.

Over the last three years, the European Banking Authority (EBA) and the EC have undertaken much effort to define the outline of the new regime.

The new regime as presented in 2017 leads to a broad simplification of risk management and measurement methodologies. Investment firms will be subject to own funds and capital requirements, with the latter based on a so-called K-Factor approach. These K-Factors define different types of risks faced by investment firms and the subsequent capital requirements to mitigate those risks. These include Risk to Customers, Risk To Market and Risk to Firm, with sub-requirements based i.e. assets under management, market risk, concentration risk, counterparty risk and operational risk. The proposal also sets liquidity and disclosure requirements.

There are a range of exemptions for small and non-interconnected firms. Also, investment firms that are considered “systemic” holding assets over EUR 30 billion will remain subject to the CRR requirements.

We strongly believe the new regime provides a more meaningful capital and risk mitigation framework tailored for investment firms, which will decrease their existing burden and is more proportionate. At the same time, as a result of the technical nature of the proposal, it still contains a range of legal ambiguities and disproportionate effects in terms of certain risk exposure measures. The coming months will likely see a myriad of initiatives by the industry to contribute to further thoughts and fine-tuning on the proposal. The ball is now with the EU member states and Parliament to define their respective positions. It is expected that the proposal will not enter into force before 2020.



**Matthijs Geneste**  
Global Coordinator  
Regulatory Affairs  
ABN AMRO Clearing



# Stichting Children's Khazana Foundation: financial inclusion

The Children's Khazana Foundation is an independent organisation in the Netherlands founded in 2015 by three female executives in Financial Services. The goal of Khazana is to support initiatives that provide basic financial skills to children who have no access to the banking system.

One of these initiatives, is the Children's Development Khazana (CDK) in Mumbai, part of the Hamara foundation. The CDK works in the slums of Mumbai to support street children by providing them with a system to manage their financial lives and supports them with basic needs and education. These children don't have access to the financial system, as they are all under 18 years old. Some of them live on the streets and have nowhere to put their money safely. Some children are responsible for other children, other family members or are just alone. Not many think of longer term goals as they are too busy just getting by.

The CDK provides the children with a savings account, teaches them about longer term goals, provides education about the banking system and how money

works. Through a number of 'bank branches' children can manage their accounts and save small quantities of cash. When they are 18 years old they qualify for a bank account in the normal financial system. The Children's Khazana Foundation is about early financial empowerment and inclusion.

## Inform children about the financial system

The Children's Khazana Foundation sponsors the adult facilitators, supports training activities, monitors the progress of the children and savings, and discusses opportunities for further growth in Mumbai.

Two children are elected bi-annually, on a rotational basis, to keep the cash books and general ledger, with the help of adult facilitators. All children are encouraged to participate in activities organised to inform them about



the financial system, their rights and entrepreneurship. At the end of 2017, 382 children were members of CDK. In November, children visited a branch of the Canara Bank in Mumbai Central. Bank officials gave information about banking operations, type of accounts, the importance of a safe banking environment and explained which skills were required and what kind of careers relate to banking. In turn, children invited them to see their own "Khazana Bank" and have requested more sessions for other participants.

The Children's Khazana Foundation's agenda for 2018 is to support the current and planned expansion of the CDK branches in Mumbai.

The Children's Khazana Foundation raises funds through events, through private initiatives, [www.justgiving.com/childrens-khazanafoundation](http://www.justgiving.com/childrens-khazanafoundation) and welcomes sponsors and personal donations.

### Imagine you are a kid

Imagine the first time you bought something with your own, hard-earned, hard-saved money.

Remember the feeling of independence it gave.

Remember the feeling of self-empowerment.

**The Children's Khazana Foundation is about early financial empowerment and inclusion**



### Khazana is an Urdu term, meaning Treasure

All investment starts with a beginning. We can give these children a beginning.

1. (v) To collect and deposit, as money or other valuable things, for future use.
2. (n.) Wealth accumulated; especially, a stock, or store of money in reserve.



## Alternatives 4 Children

# EURO 1,000,000 - YES - 1 million Euros!

This is the amount we aim to have raised by the end of this year since we first started in 2011!

Of course this would not have been possible without your support, as well as the support of ABN AMRO Clearing. Thank you and congratulations! We look forward to your continued support as well as raising the next million!

For those of you who don't know us:

**Alternatives 4 Children (A4C)** is an independent charitable foundation established in 2011 in the Netherlands with the aim to involve professionals from the (Alternative) Financial industry. Originally founded

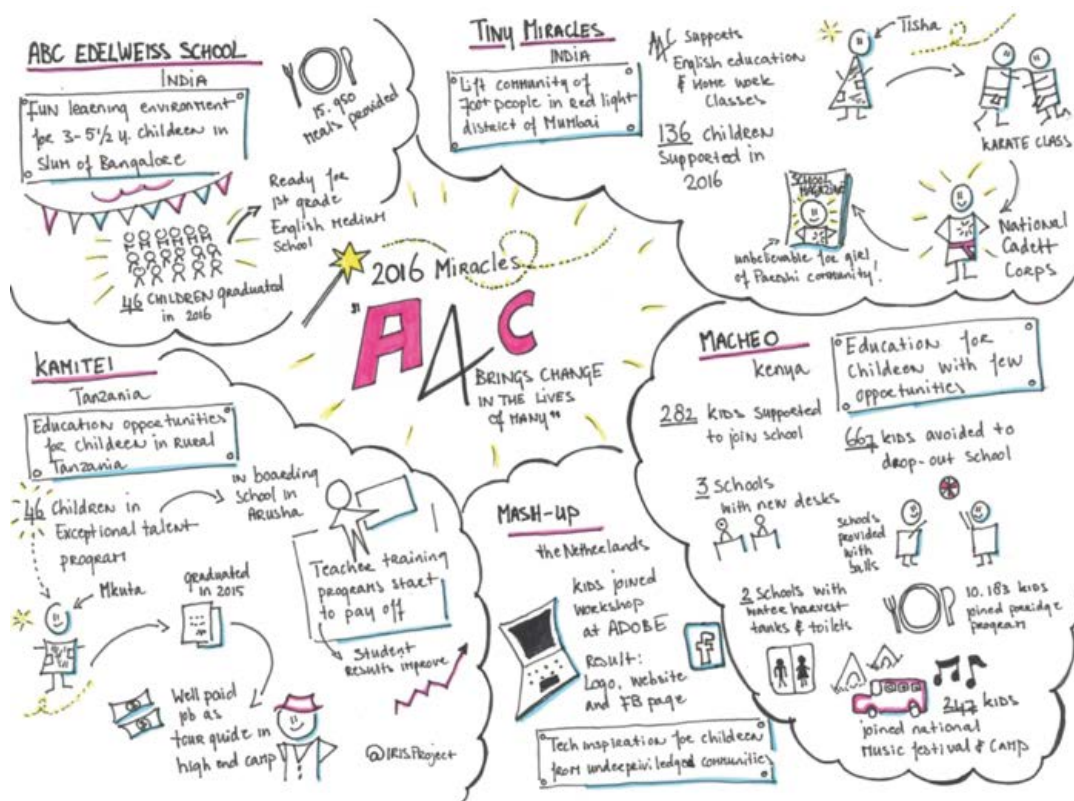
by professionals from the Dutch Alternatives Industry, we are now open to all countries and people from the financial industry. We are currently in the process of opening a London Chapter. The foundation is a private initiative of a number of professionals from the investment industry.

### Goal & Vision:

A4C will support sustainable projects and raise money for charities involved in improving the living standards of children.

### Sometimes a picture tells a thousand words:

Each year with your donations we are able to help about 500 children in need with their education needs around the world. This is the IMPACT that your donations have had!







For more detailed information please do visit our website which is updated with a lot more information: [a4c.nl](http://a4c.nl) or send us an email: [info@a4c.nl](mailto:info@a4c.nl)

These smiling children thank you for the opportunities you have given them and hope that you will continue to have a meaningful impact on their education, health and future lives!

Thank you for your support!

**Marc de Kloe** (Co-founder A4C)

And the rest of the team who volunteer for us

# Recent changes proposed by the European Commission are likely to have a significant impact on how regulators operate within the EU

In November 2017 it was announced that the European Banking Authority (EBA) would relocate to Paris in 2019 following the UK's decision to withdraw from the EU. With a team of approximately 700 staff, and a supervisory role in a sector where the European Central Bank also has a mandate for banking supervision, the EBA's move is only a minor though symbolic success for Paris.

The announcement does however come at a time when attention is focused on significant changes to European Supervisory Authority (ESA) governance, recently put forward by the European Commission. These changes are likely to have far-reaching repercussions for the future of supervision of the financial services sector within the EU from 2019 onwards.

The Commission has put forward several proposals that would substantially amend the regulatory framework governing both the ESAs and the European Systemic Risk Board. It has also proposed changes to recent EU Directives such as Solvency II and MiFID II.

The upcoming reforms will involve significant changes to the scope of the authorities' powers, changes to internal governance and new sources of funding for each ESA. These changes will mean increasingly centralized supervision of financial institutions, increased involvement from each ESA and less of a role for each of the National Competent Authorities (NCA), or home regulators in each member state.



The first change of note is to funding sources for the ESAs. The Commission has proposed to complement the current system of funding of ESAs by way of contributions from the EU. Fees raised both from entities newly subjected to direct supervision by the ESA and from contributions from financial institutions who are currently indirectly regulated with direct supervision from an NCA.



Other changes of consequence, concern the internal governance framework at each ESA and will have a direct impact on how decisions are made. An Executive Board is to be appointed at each ESA, staffed by external appointments. The Chair of the Executive Board will appoint full-time Board members selected from a list of individuals nominated by the Commission who have the requisite skills, knowledge of financial regulation, and experience in a supervisory role. The Commission's proposals will effectively concentrate decision-making at the Executive Board level, with the creation of a new governing body comprised of four individuals for both the EBA and the European Insurance and Occupational Pensions Authority, (EIOPA) and an Executive Board of seven individuals for the European Securities and Markets Authority, (ESMA). Even though the Commission has made a clear statement of its expectations that Board members will act independently and in the sole interest of the Union, leaving aside any national interest, there is still concern in some quarters about a concentration of power in the hands of such a small number of individuals.

The organization currently in place within each ESA centers around a Management Board composed of the Chairperson and of representatives from each of the member state NCAs, consequently decision making involves creating consensus amongst the different representatives of each of the EU countries. The move to a smaller, and more concentrated Executive Board is intended to speed up decision-making and promote effective, impartial decisions taken to promote the interests of the EU.

Each ESA will retain the current Board of Supervisors as the ultimate decision-making body with responsibility for overall supervision. The Executive Board's mandate will be to prepare decisions for the Board of Supervisors, however the Executive Board will also have direct powers to conduct independent reviews of NCAs and to resolve disputes between NCAs arising out of EU law.

Perhaps the most topical of all the changes to the ESAs responsibilities is the proposal that the Executive Board

will also be responsible for monitoring outsourcing, delegation and risk transfer arrangements to third countries. The Executive Board is to be competent to act, subject only to a requirement to keep the Board of Supervisors informed of their actions and decisions.

This move would seem to elevate the decisions made the Executive Board to the same level as those of the Board of Supervisors, potentially allowing a handful of individuals to determine which third countries will be deemed as fulfilling the criteria for equivalence.

As part of their monitoring activities the ESAs will receive semi-annual reports from NCAs informing them of delegation or outsourcing requests to third countries. This change is likely to result in increased focus on those delegation arrangements with financial institutions outside the EU. This is likely to impact not just the UK financial services sector looking for ways to access opportunities and capital within the EU post Brexit, but also every other third country, and is of particular concern to the U.S., as evidenced by recent pronouncements by both the SEC and by U.S. fund trade bodies.

At a time when the UK is wholly focused on Brexit negotiations and the desire to preserve access to EU capital for its banks, asset managers and insurers, many in the UK at least perceive the Commission's proposed changes to strengthen rules around third country access as a direct attempt to ensure that the UK does not engage in a regulatory race to the bottom, once outside the EU.

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**Hannah Rossiter**  
Director, Compliance &  
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# Notes







Notes





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