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Opalesque Roundtable Series '16

MIAMI

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Editor's Note

Miami has become a destination for the entire world

Citizens of every country are looking to reside and work there, it is no longer about just one or a couple of markets that are looking at Miami. Over the recent years, Miami has developed a functioning ecosystem that supports all professional and lifestyle needs of people and businesses. The Miami Downtown Development Agency (Miami DDA) has been instrumental in helping many financial services firms migrate to downtown Miami to either relocate or set up a regional office. These firms range from very large multinational organizations to smaller, more boutique alternative investment managers and consultants which are represented on this Roundtable.

Even Chinese investors and developers are getting active, ahead of the implementation of direct flights. Many firms come to Miami to have the best possible access to Latin America, but an increasing number have also come because they "can," and technology allows them that benefit, and the right to live where they want to live. For example, Atyant Capital, an India focused hedge fund, has raised about 90% of their AUM since coming to Miami, and 100% of those new assets have come from university endowments and institutional investors.

Apollo Aviation Group, who runs a liquid hedge fund strategy from Miami, found that office space prices are a fraction of what they were looking at in Connecticut, with high quality living accommodations all within walking distance of an office. The firm also found it to be very easy to recruit talent, which was an initial concern. Graham Walsh, CEO and founder of $1.2 bn hedge fund Prologue Capital, points out that it hasn't been his experience that talented managers are coming here to kind of semi-retire. Rather, in order to be successful in the long run, people decide to add fundamental quality to their lifestyles so that they stay healthy and do not burn out.

Traditional investments likely to disappoint, investors advised to include more alternative investments

The consensus view at this Roundtable is that we are in an environment where traditional investments are highly unattractive. Courtesy of global central banks, fixed income markets are in bubble territory, and companies spent their cash flow on equity buybacks and dividends rather than investing in their core business. History shows that if you buy a classic domestic 60/40 equity/bond portfolio at today's valuations and yields, the odds of making more than a low single-digit return over the next ten years are fairly slim, and the downside risks are substantial. Generally, a pension plan in the US requires a return between 7% and 8.5% a year, so this is not an attractive proposition. There will be opportunities in select global markets, but they will require timing skills and most importantly stamina.

The next ten years could well belong to alternatives. Because of regulations and structural changes in the industry, investors now have ***access to a myriad of new opportunities that were simply not accessible before the crisis.*** Substantial inflows will be coming from investors who are increasingly desperate to hit their required return target, be that a pension fund or a private investor. So we do think this is a great environment for alternatives, but ***not necessarily for all*** alternative strategies.

Capacity: Why smaller institutions should rejoice when larger ones exit alternatives

When you see a number of large US pensions moving away from hedge funds blaming high fees, or because a too small allocation to alternatives will not move the needle for them, the typical Board of Trustees of a smaller institution will not fight them, thinking that the large plans are "the real guys". However over the long-term, it is the beneficiaries who will suffer.

As the most attractive alternative investments will always come with certain capacity limitations, what most smaller investors miss to realize is that they actually do have an advantage over larger institutions. Size is not an advantage in this environment. Some people use the metaphor of a "house" of opportunities in this respect: If you are too big, you just cannot get in.

The Opalesque 2016 Miami Roundtable took place in November 2015 at the Downtown Development Agency in Miami with:

1. Graham Walsh, Prologue Capital
2. Gustavo Bikkesbakker, Meketa Group
3. Patrick Stutz, Bayshore Capital Advisors
4. Scott Paige, Apollo Aviation Group
5. Pratik Sharma, Atyant Capital
6. Nitin Motwani, Miami Worldcenter, Miami DDA

The group also discussed:

- Why is consultant Meketa Investment Group open to meet with any investment manager, regardless of how many years they have been in the market, the duration of their track record, level of AUM or if it's their first fund?
- What is Miami doing to cope with the population growth and continue to ensure high quality of life?
- What are "crisis aftershock trades", and why are they still available?
- Finding yield in real estate and REITS
- Outlook: Are markets underestimating the amount of tightening which the economy will be able to absorb?
- What is the "10% down club"? And who is responsible for it?

Enjoy!

Matthias Knab

Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Matthias Knab, Patrick Stutz, Gustavo Bikkesbakker, Graham Walsh, Scott Paige, Pratik Sharma, Nitin Motwani.

This is an abridged version of the Roundtable. For the full version please visit Opalesque.com/Miami.

Introduction

Nitin Motwani
Miami Downtown Development Authority

My name is Nitin Motwani, and I am the Chairman of Economic Development here at the Miami Downtown Development Authority. One of the mandates of the Miami DDA is to show the world that downtown Miami welcomes all forms of businesses in the financial industry, and that we have developed a functioning ecosystem that supports all professional and lifestyle needs of such businesses. Largely because of our efforts, Downtown Miami has recently witnessed a migration of many financial services firms who have relocated here or set up a regional office. These firms range from very large multinational organizations to smaller, more boutique alternative investment managers and consultants which are represented on this Roundtable.

I actually grew up in South Florida, and after starting my career with Goldman Sachs in New York as an equity derivatives trader, opted to come back to Miami to focus on real estate. I am involved with a large development project called the Miami Worldcenter, and we also have a real estate private equity fund called Encore Capital Management, which has just over a billion dollars of assets under management and is based in Boca Raton.

Pratik Sharma
Atyant Capital

My name is Pratik Sharma. I am the Managing Partner and Co-Founder of Atyant Capital. We are a value-oriented investment manager with an exclusive focus on the Indian markets. We currently manage a fund focused on opportunities in small and middle market equities listed on the Indian stock exchanges.

We have been in Miami since 2011, and actually relocated to Brickell Avenue in Downtown Miami in 2014. Our fund just completed its 10th year. We're currently managing $225 million in this strategy.

Patrick Stutz
Bayshore Capital Advisors

My name is Patrick Stutz, and I am the Chief Investment Officer of Bayshore Capital Advisors. We are a South Florida-based advisor that invests globally and opportunistically across all traditional and alternative asset classes. Next to managing a significant amount of partner capital, we offer a turnkey solution for a handful of independent Registered Investment Advisors, or RIAs, who use our expertise in due diligence to access alternative investments that are different from the plain vanilla alternative strategies available on the big wealth management platforms.

Originally, we operated as a fund of funds, but as the alternative investment industry has developed, we have shifted gears and gone down the path of customizing solutions for clients. We also run liquid portfolios, mostly using mutual funds and ETFs. Our solutions are entirely client-driven, but I would say our edge is in niche alternatives and other off-the-run investments which we view through an opportunistic global lens.

Personally, I grew up in Zurich, Switzerland, and moved to New York in 2002. I spent 11 years in New York, initially working as a traditional equity PM, later switching to alternatives for a blue chip FoHF, followed by PM roles at a hedge fund as well as an outsourced CIO. I joined Bayshore in 2013 as CIO.

Scott Paige
Apollo Aviation Group (AAG)

My name is Scott Paige, and I represent Apollo Aviation Group (AAG). AAG is split into two halves. The parent organization is a private equity organization that invests in mid-life aircraft subject to lease, and in many cases they take the aircraft at end of life to a part-out strategy. The firm has over 60 employees with offices in Miami, Dublin and Singapore. Dublin is relevant as it is the main worldwide hub for aircraft financing. Ireland offers favorable tax treatment for aircraft lessors and has the most extensive network of double tax treaties with jurisdictions worldwide.

We also have a liquid hedge fund strategy, which I started for Apollo Aviation Group about two and a half years ago. We invest in all types of aviation securities, including leasing companies, manufacturers; basically assets that have a CUSIP number and a certain degree of liquidity.

We have recently branched out in our marketing and distribution, and have partnered with Morgan Stanley Tokyo. They are distributing our products in the Japanese market, and are specifically targeting institutional investors.

The appeal of our asset class is that aviation assets tend to offer extremely high recovery rates in the eventuality of a bankruptcy. These are global assets that can be utilized in any global market, and there are a limited number of players in the market. Boeing and Airbus have essentially a duopoly in the market, so we and our investors are really able to get a handle on the supply and demand characteristics of the securities we are trading.

Regarding my background, I worked at Trilogy Capital for 12 years running their transportation group in Greenwich, Connecticut. Prior to that, I ran the global transportation group of Mitsubishi Trust and Banking Corporation for roughly 19 years.

Gustavo Bikkesbakker
Meketa Investment Group

My name is Gustavo Bikkesbakker, and I represent Meketa Investment Group. Meketa is an institutional investment advisor; our client-base all together has roughly $800 billion in assets, and we advise them on roughly $345 billion worth of these assets. These are large institutional investors, 99% of whom are US-based. About half of our clients are public pension plans, and the other half are Taft-Hartley pension plans.

We help our clients with their asset allocation and their manager selection. However, what makes us unique is that we have a large practice and focus on alternatives, specifically in private markets. We have over $28 billion of our clients' money investments in private markets, including private equity and private debt. Around half of our research resources focus exclusively on private market.

Our main office is in Boston, Massachusetts. We also have offices here in Miami, in San Diego, California, in Portland, Oregon, and we recently expanded with offices in Chicago and London. The objective of our office here in Miami is to develop the Southeastern United States, and also to take our first steps into the Latin America market from both a client services perspective and also from a research standpoint.

I personally cover private equity managers in Latin America. We have been investing in those strategies for six to seven years, essentially we have been monitoring the region since that entire private equity asset class began to develop in Latin America.

As for my personal history, I am entering my fifth year with Meketa, having joined the firm when we launched our Miami office. Prior to joining Meketa, I spent 12 years in Boston, after moving from Argentina.

Graham Walsh
Prologue Capital

My name is Graham Walsh. I am the CEO and a Founding Partner of Prologue Capital. We are a global macro hedge fund manager specializing in sovereign interest rates and foreign exchange. We also have fixed income relative-value and inflation-related strategies.

We currently manage about $1.2 billion, and are in our 10th year of operations with offices in London, Connecticut, and here in Miami. On a personal note, I grew up in the north of England and started my career at Solomon Brothers. I also spent 12 years as a trader at Greenwich Capital Markets in Greenwich, Connecticut before we launched Prologue.

Matthias Knab I would like to look at what is going on in Miami and what you are seeing on the ground here. How has the industry changed, and what are some of the recent dynamics and developments? Nitin, what comes to mind when you think about the last 12 months; were there any milestones, new trends, or new directions that you have seen in Miami that are relevant to finance?

Nitin Motwani: The climate and wonderful weather is always what we are known for, but what has changed and continues to change is the quality of both the people and the lifestyle here. The restaurants, the culture and art-loving community, the hotels, and residential options have all improved drastically and have made Miami an attractive place to be.

Recently, I think everyone here has also seen the clear slowdown of the Brazilian economy and depreciation of the Brazilian real, and we have also seen struggles in Russia. What is fascinating to me is that despite a number of these economies struggling, we still see the momentum growing in global citizens coming to Miami with personal and professional motivations. To exemplify this trend, we now have 32 countries represented in the buyer profiles in one of our condominium projects. When you see that diversity, you can clearly observe the dynamic that **Miami has become a destination for the entire world.** I would say that citizens of every country are looking to reside and work here, it is no longer about just one or a couple of markets that are looking at Miami.

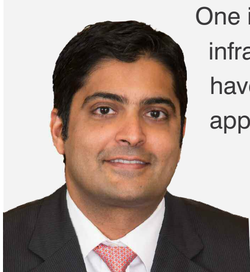
The introduction of direct flights to Qatar is another example of this global demand for a presence in Miami. Qatar's largest development company, Al Faisal Holding Co., bought the St. Regis in Miami for $213 million, another Middle Eastern Group bought The Edition hotel. In 2015, Turkish Airways announced a direct flight to Miami. Miami is now truly on the map as a gateway global city. Our infrastructure still needs improvement, but is taking significant steps toward progress.

We have seen a lot of investments both individually in condominiums and property, and larger asset managers and investors are setting up companies here as well. The financial services sector has realized that having a presence here is not a problem as far as raising capital. A lot of people in our industry are realizing that the professional lifestyles we lead are very intense and strenuous, that it is a good thing and probably healthy to be able to balance your broader quality of life, whether that is with family, friends, or just on a very personal level.

So all of these components are coming together in Miami and it is really showing in the diversity and growth of our economy.

Matthias Knab I have just spent some time in some of the Asian-Pacific financial and economic centers – Shanghai, Hong Kong, Singapore, Sydney and Tokyo – and I am wondering what is the interest or impact of Chinese investors and tourists on Miami at the moment?

Nitin Motwani: There are a few components that I think are driving that Chinese interest, and also renewed domestic interest. One is the expansion of the Panama Canal, which is due to open next year. We have also improved our infrastructure for that, for example by dredging our port to allow for a lot of companies that historically would have been based in Southern California for import/export businesses to come here. Also for those firms, Miami appeals as a hub to further send down goods to Latin America.



Many companies, especially from the Far East, are now establishing Miami as their gateway to Central and South America, and also the Caribbean. That momentum is introducing Miami to a lot of companies that are operating out of China and are looking to set up shop here to expand their organizations.

This is also forcing China to re-explore direct flights to Miami, and we have been promised this will happen as early as 2016, but most likely in 2017.

So we are seeing a lot of large Chinese developers looking at the Miami market. These developers have historically been focused on Seattle, San Francisco, Los Angeles, and New York. They have become very intrigued by Miami for a variety of reasons, including the diversity, the weather, the lifestyle, and the fact that we are also still significantly cheaper than a lot of these other cities.

We have seen some extremely large groups buying very large assets for cash, and looking to promote them to Chinese buyers, because ours is a market that is still largely untapped. So actually ahead of the direct flights from China, these folks are making very significant investments in Miami, and the same is true regarding the expansion of the Panama Canal where also numerous parties are making significant allocations within their organizations to be able to export to South America and the Caribbean.

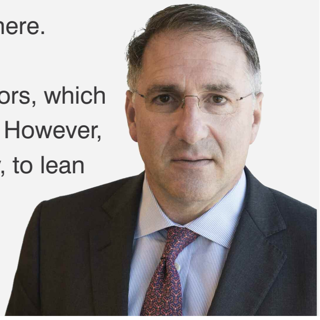
Patrick Stutz I would like to throw in a question. At the 2014 Roundtable, we spoke about how more investment firms are relocating part of their teams to Miami as it was becoming more commonly accepted as a location for the asset management community and for investors.

Since then we have in a way experienced a few setbacks, for example the collapse of Everest Capital. I was amazed how little that was discussed in the media, but it was indeed a major failure. I wonder, has that event slowed Miami's undeniable momentum?

Scott Paige: I would love to respond to Patrick's thoughts and his question. We set up our company here about two and a half years ago so that I could run my hedge fund strategy. AAG was already stationed here, and this was an important strategic base for them. My initial thought was that Greenwich, Connecticut or Manhattan were the ideal spots for an investment company to have locations, and I had initial concerns about Miami.

However, when I came down here for the first time and observed the environment and all of this high quality office space, I realized how sophisticated downtown Miami had become. **Office space prices are a fraction of what we were looking at in Connecticut.** There are high quality living accommodations all within walking distance of an office. The environment is very business-friendly, and most locations, including the Miami Airport, are easily accessible with connections to most places. In my experience here, I have not seen many detractors of this location from a professional or lifestyle perspective. It also turned out to be very easy to recruit talent, which was an initial concern of mine.

Addressing Patrick's point about the perception of alternative investment managers, my initial impression of this region when I first moved down here was that there was not a clean image of investment advisors and hedge funds which are based in Florida. However, I think we had already reached a turning point by the time we launched in 2013, where that negative perception was no longer a factor. As you can imagine, when setting up a business, I was hypersensitive to those investor concerns early on, but what I found that, as we started to have investor meetings, was that it actually was not a factor or concern. Any negative image and connotation had already dissipated by the time I moved here.



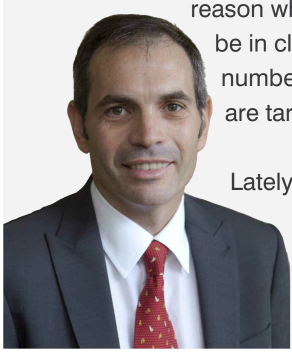
We did have our established parent company to lean on during our transition and in talking to investors, which is an advantage that other funds who are launching or relocating here might not have as a resource. However, those firms would have other organizations, specifically the Miami Downtown Development Authority, to lean on. I have been very pleased with our experience in relocating here, and at this point in time I would not even think about moving back to the Northeast.

Matthias Knab

Regarding Patrick's specific question why Everest Capital's failure hasn't really affected Miami or Florida's reputation: In my view that hedge fund was one of many that we caught on the wrong foot when the Swiss National Bank unexpectedly let the Franc trade freely against the Euro and thus ending its three-year policy of capping the Franc at 1.20 a Euro. The Franc surged as much as 41 percent versus the euro on Jan. 15, the biggest gain on record. Of course, you could argue that Everest's currency bet may have been too levered, but I believe people viewed that failure as an investment gone awry, rather than a scandalous blow up that would taint the whole community.

On top, I think that there is still a certain respect for Everest founder Marko Dimitrijevic. Everest has been around for 25 years, and Dimitrijevic is an emerging market specialist who has navigated at least five debt crises in those market. Just that this one unfortunately went completely against him. I live in Germany and Switzerland is our neighbor, and I can tell you that he wasn't the only one who expected the SNB to maintain the peg against the Euro.

Gustavo Bikkesbakker: We see investment managers from all over the world come through our doors. With increasing frequency, we are now seeing investment managers who are establishing in the Miami area. In the majority of the cases, these Miami-area managers have some type of relationship with Latin America in their investor base or strategy, and that is the reason why they locate in Miami. The reason is often because they want fly into Latin America more easily, and be in closer proximity to their investor-base or their investable markets. As we all know, there is also huge number of events here in this region that are Latin America-focused, so Miami is a good spot to be in if you are targeting that market from an accessibility and networking standpoint.



Lately, I have seen not only US-based firms establishing satellite offices here to provide a doorway into Latin America, but a number of different European managers who are putting down roots as well. The reason for this trend is the same; where there is a direct client relationship motivation related to Latin America, or to enhance their research capability into the region.

Graham Walsh: I would like to add a few observations on the benefits of our region. For anyone who is non-American by origin, I think that Miami is an extremely good city to set up in, because it is so international that anyone can feel very welcome. You will certainly be able to find compatriots from your country, if you wish. This internationalization that Nitin discussed is definitely raising the profile of the city.

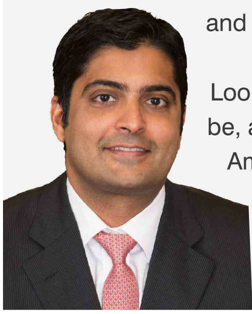
Addressing Patrick's question about the public perception of our market, in my opinion there is a still a little bit of hesitancy on the part of investors when Miami comes up in their discussions. I think that the image of Miami as unsophisticated or as a less developed market is a perception that is gradually changing, and which will hopefully continue to change over time. Changing historical perceptions in the minds of investor communities is part of a long-term education and transformation process. It takes time, but it is definitely happening.

It also hasn't been my experience that talented managers are coming here to kind of semi-retire. In comparison to New York and London, this is a very good environment in a way, because you remove some of the excessiveness and noise. The culture and environment of those cities can be quite an overkill in different ways, and I think to be successful in the long run you do need to have some sort of fundamental quality to your lifestyle so that you stay healthy and do not burn out. This sort of climate here allows you to do that while still working hard and doing what you love professionally.

Nitin Motwani: It is wonderful to have successful asset managers like Graham who have migrated here, and we also have many homegrown success stories. Bayview Asset Management, where my wife works, has grown to be a $10 billion AUM hedge fund and is affiliated with the Blackstone Group. The private equity firm H.I.G. now has $20 billion in AUM. Since Bruce Berkowitz has moved from the Northeast, Fairholme Capital has only grown both in success and in assets under management. Universa Investments is also a great story. We at the Miami DDA recruited that firm to move here from Los Angeles, and they have had no issue in raising capital.

Speaking to Gustavo's point, the Latin American theme of a firm residing here to have access to those markets is definitely relevant for some firms here. But there are certainly many other asset managers who have a wide variety of strategies and investor-bases, and have found great success in the advantages that Miami provides. Universa is not focused on Latin America, and has experienced a very smooth transition and continued success.

There are currently a lot of other major funds that are here and are looking at our jurisdiction. You also have to consider where CEOs and other high powered executives want to be. Successful executives like Lloyd Blankfein and top partners at Goldman have purchased condominiums at Faena House, and Leon Black from Apollo Global Management also has a residence here, for example. Carl Icahn has a house in Indian Creek, and his son is also looking around at opening up shop here. It has become a common conversation, where everyone actually knows someone who is looking to come down here, and I do not think that this trend is going to change for all the reasons that we discussed.



Look at a fund like Atyant Capital, with Pratik looking to invest in India. Why are you in Miami? Because he can be, and technology allows you that benefit, and the right to live where you want to live. The ties to Latin America are still significant in driving the demand to live and work here, but the key advantage to Miami at this point in time goes back to what Graham said. You can have the flexibility to finally live where you want to live in a comfortable environment while conducting business globally. Miami gives you that platform.

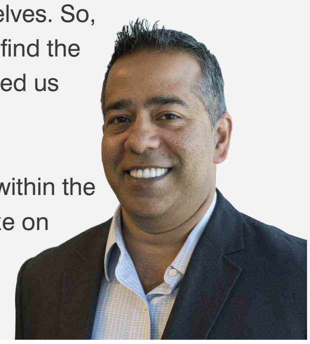
Pratik Sharma: **Our firm has raised about 90% of our assets under management since we have been in Miami. Of those assets that we have raised, 100% of the new assets have come from university endowments and institutional investors.** So in our experience, living here is definitively not a hindrance to capital raising. We can all speculate as to what is and what is not happening on the buy and sell-sides, but our firm is a real life example that displays the ability to succeed here, and also to appeal to institutional investors.

I think it is important to be mindful of the theme that we are all trying to compare Miami to London, or to New York. Miami is not trying to be London or New York. First you have to consider the size of this city. New York has 8 to 9 million people, and here we have 1 million. People sometimes question if there is a dearth of investment professionals or talent here, and sure, this city is one-ninth of the size. Do you expect to find the same number of portfolio managers here that you find in New York? That is simply not feasible.

But in that context I also believe that we as an industry don't have sufficient appreciation for long-term trends and change, and how it takes time for certain things to play out.

One of the biggest challenges or concerns that I have heard from managers relates to the availability and the abundance of choice when it comes to investment professionals, and in some ways we have experienced that ourselves. So, finding operational and administrative staff is relatively straightforward and easy, but it can be hard to find the right high quality investment professionals compared to a much larger market. But that has not deterred us from finding good people and growing and scaling our firm successfully.

There are two ways that firms like mine actually find investment professionals. You either find people within the industry, or you essentially groom people straight out of school, or younger professionals who will take on a more junior position.



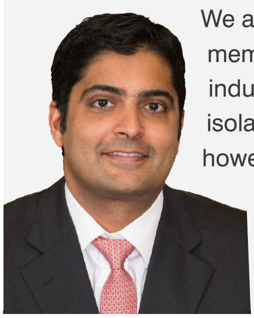
The industry is growing regionally, so the pool of people who will become available to potentially join an organization like ours is growing as well. The more that firms like ours actually focus on grooming local talent and building their experience, three to five years down the line those professionals will be able to contribute to firms in this region. The process of building an investment community and also a professional talent pool is constant, and gradual.

To quote Wayne Gretzky "You don't skate to where the puck is, you skate to where the puck is going to be." I think about that, and I know where the puck is going regarding Miami's financial community, which is what makes Miami an interesting place to conduct business, raise capital, and have a high quality of life.

Nitin Motwani: The Downtown Development Authority has tried to act as a concierge for any firm looking to come here. There are incentives at the state and county levels. The Miami DDA educates firms of all sizes of the value they can find here, not only in the less expensive office space and tax benefits, but in the growth of our business culture. However, some of those incentives are designed for firms who employ lots of people while in our domain of investments, that is typically not that much the case.

But we have also seen success stories with larger firms, like XP Securities. XP Securities intended on coming here from Brazil with about 20 people, and ended up with about 100 employees. However, for the most part, we have seen a lot of smaller groups who are starting out with two to eight people, and are launching or relocating here. It is an ideal situation for smaller alternative asset managers, and the Miami DDA helps to make the transition very smooth.

At the Miami DDA, we realize that the folks in all aspects of the financial services industry are accustomed to moving quickly when they make decisions, so we help them with understanding what office or staff might cost; as well as answering their questions about residential accommodations, transportations, schools and a range of other items. There is a great deal of support with idiosyncratic details that can be challenging.



We also help them on the networking front, by introducing them to each other and other financial industry members. When we started applying this proactive effort, we actually found that a lot of the people in this industry did not even know the others existed. Some industry members prefer to have their independence and isolation, and that partly drove their decision to move to the area. That is completely fine and understandable, however a large majority of industry members do appreciate those networking opportunities. They enjoy spending time with like-minded folks and brainstorming ideas, opportunities, and business components such as fund raising. We try to provide a platform to help new folks moving in, but once people move here, we continue to help them network amongst peers.

Graham Walsh

If I have concerns, they are with regards to the city's infrastructure handling the population growth, and in the school system.

In the time that I have been here, the traffic has become much worse. The city needs improvements in that area. We also need to think about public space, and improve the school system if we are to develop more investment professionals and attract a larger population in general.

Nitin Motwani: Graham brings up some good points, and I think Pratik's allusion about moving to "where the puck is going" is relevant to address these issues. There are a myriad of people here who need to get ahead of these changes, it is not just us as investment professionals. On the developer side, our entire project is designed to incorporate transit-oriented development, LEED certification, full live-work-play, office, hotel, retail, residential, and also public spaces considerations. The reason for that is simply that as cities urbanize, people do not want to travel as far.

On the other side, as my traffic engineer told me, when people are not complaining about traffic or parking, then you do not really have a city. So the good news is that our people are complaining about traffic and parking, because we have a true city, and we are growing, but surely the bad news is that our infrastructure has not kept up to speed to accommodate the growth.

I can say that from my perspective and my role on the Downtown Development Authority's Board is that we have been pushing for transit and infrastructure investments in each of the seven years that I have been on this Board. Some politicians are completely in favor of these changes, and some are totally against them. We have seen significant capital investments allocated to improve the highways out west, but not for the infrastructure in the urban core where the population density is increasing. To me, this approach makes very little sense.

In the last 12-18 months All Aboard Florida, which is a subsidiary of Fortress Investment Group, has played a significant role in bringing the issue of neglect of our urban infrastructure to light. They are bringing a $2.5 billion privately funded passenger rail project to downtown Miami, which will go from Fort Lauderdale to Palm Beach, and to Orlando. It will connect 28 cities in the Tri-County area.

That project is extremely important, because citizens and developers are suddenly thinking about transit-oriented development. They can build residential and commercial buildings adjacent to trains so that people can live as they do in some of the major global cities, such as London or New York. What we have seen now is that every politician in every meeting is talking about this rail project and also the need for improved infrastructure, so that we can advance as a city.

So for the first time there is a call-to-action by both the private sector and the public sector, and all parties are trying to figure out how to enhance these efforts. These developments will not happen overnight, it will take a decade for these projects to be completed, but now there is some actual, tacit momentum and action. There have been conversations for 20 years about connecting the beach to Downtown Miami, or connecting all of these cities along the East Coast of Florida. People have been talking about these projects forever, but now companies are actually executing Request For Proposals (RFPs) to try to get folks on board and drive these projects forward.

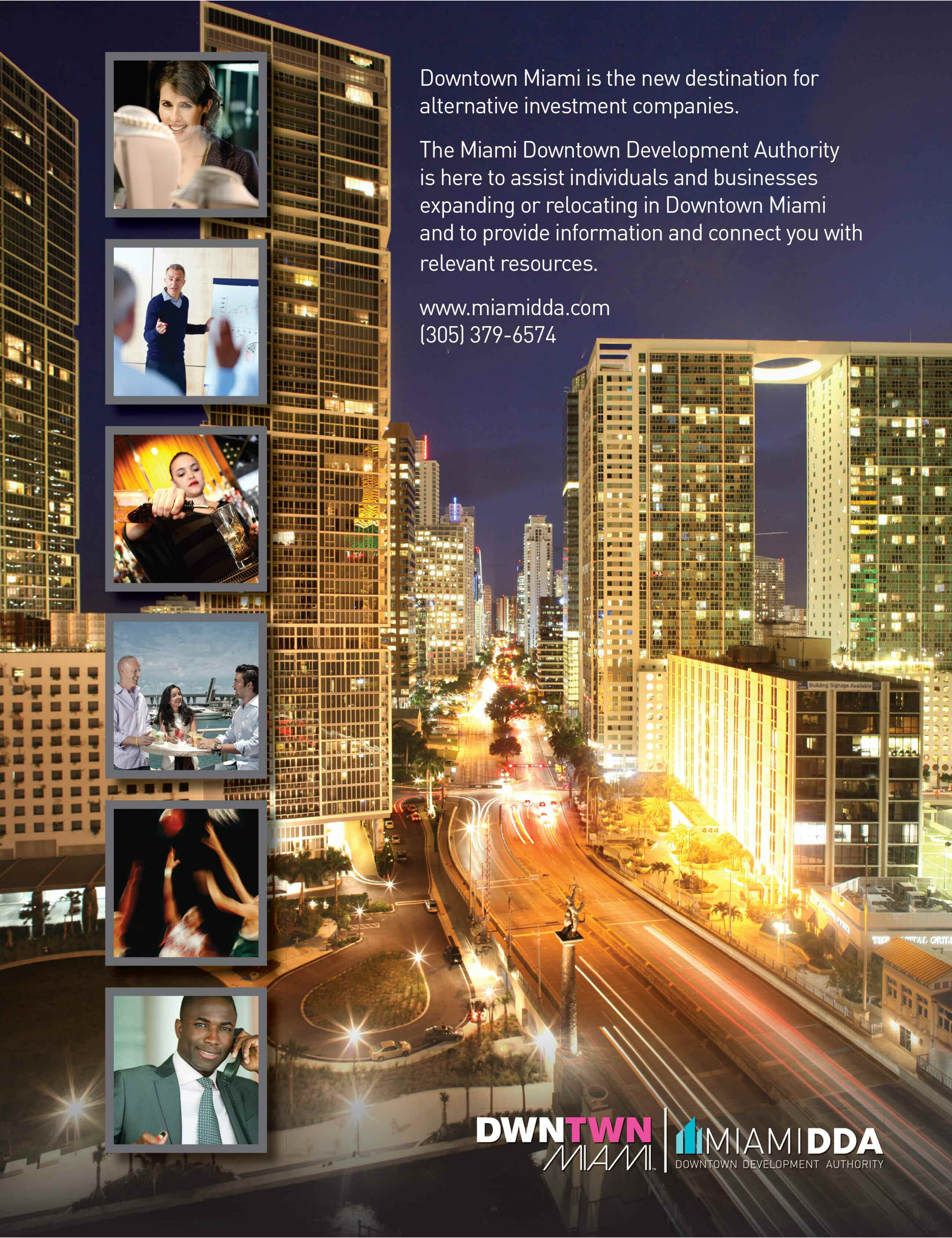
The school system improvements are vitally important. We are fortunate in that the Superintendent of Miami-Dade County, Alberto Carvalho, is ranked as the number one superintendent in the country. He has done phenomenal things in our public school system. The reality is that the diversity of our city creates innate challenges, because if you have, as I mentioned regarding one of our condominium projects, 32 countries represented in this one building, you probably have 28 different languages represented. So how do you keep up with that kind of pace of diversity? The future of America will be looking to Miami for this solution, and to see how we handle this dilemma.

Our schools are advancing very well, but they are also transforming in dynamic ways that are different from how usual school systems works. Our system does not work as it might in the Midwest, for example, where 90% of the citizens speak the same language, and possibly grew up in the same town. We have to think more outside of the box to tackle these cultural and educational issues.

The private school system is interesting as well. Even in cities with high taxes like New York, Los Angeles and San Francisco, many people still send their kids to private school. We do not have the private school capacity for the flow of wealthy community members that are coming to Miami, and who are used to sending their kids to a private institution.

I will say that there are great schools from the Northeast, from Europe, and from South America that are realizing the diversity and potential of Miami, and are looking for real estate to proactively set up schools in the urban core and around the periphery. This includes charter schools and even our public school system.

So in conclusion, regarding Graham's concerns about infrastructure and education, I think that for the first time in the last 12 months everyone is now focused on those exact issues. There is no clear-cut solution yet, but there is a call to action on both fronts, and we are seeing actual progress.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