

## Performance Update

<b>Fund of Hedge Funds Indices</b>	Mar	Feb	YTD	2004	2003	2002
EDHEC Fund of Funds Index	-0.40%	1.36%	1.00%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	-0.38%	1.37%	0.96%	6.79%	11.59%	1.02%
CISDM FoHF Diversified Median	-0.31%	1.24%	1.01%	7.52%	10.04%	0.65%
CISDM FoHF Niche Median	-0.20%	1.12%	1.39%	8.33%	10.62%	1.99%
InvestHedge Composite <sup>1)</sup>	-	1.26%	1.45%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	-0.42%	1.38%	1.10%	7.39%	11.12%	1.23%
EurekaHedge Fund of Funds Index	-0.43%	1.36%	1.02%	6.47%	11.22%	2.03%
Barclay/Global HedgeSource FoF Index	-0.49%	1.35%	0.99%	6.60%	10.36%	1.79%

1) Updated by the end of the month.

<b>Investable Hedge Funds Indices</b>	Mar	Feb	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	-0.13%	0.78%	0.00%	5.31%	11.04%	5.67%
MSCI Hedge Fund Composite Index	-0.46%	0.74%	-0.04%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	-0.68%	0.38%	-0.67%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	-0.97%	0.88%	-1.04%	2.69%	13.39%	-
FTSE Hedge Index	-0.55%	0.23%	0.24%	3.12%	12.36%	2.05%

Numbers prior to the date of inception of the Investable Indices are pro forma. Fees may not be included.

## Industry News

### Popularity of multi-strategy hedge funds on the increase

The popularity of multi-strategy hedge funds has been growing for some time, but some analysts believe such growth does not threaten the dominance of fund of funds vehicles. Funds of funds have been the strategy of choice of many institutional investors, drawn to such strategies because of its diversification potentials. The number of multi-strategy hedge funds has doubled in recent years, and its managed assets have also seen significant infusion of capital. There is disagreement between hedge fund industry analysts regarding whether such growth is happening at the expense of fund of hedge funds. While both strategies seek to offer diversification potentials, multi-strategy hedge funds offer less diversification than fund of funds in comparative terms.

According to Tremont Capital, the number of multi-strategy hedge funds has doubled to about 500, and their managed assets also grew to about \$98 billion. This represents nearly 10 percent of the total of \$1 trillion of assets being managed by hedge funds globally. In 2003, the total assets managed by multi-strategy hedge funds stood at about \$65 billion. However the total assets managed by multi-strategy funds is far below those of fund of funds, 119 of the largest fund of funds in the world manage assets in excess of \$540 billion according to published reports.

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### **Hedge fund assets growth has peaked, but will remain strong**

**Morgan Stanley**

In a report on asset management from Morgan Stanley's Equity Research Europe, analysts found an influx of about 15% in net new money for funds in 2004. The report said firms are penciling in 10% to 15% in net new money for 2005. Analysts also credited institutions, particularly charities and endowments, more than individual investors for the new inflows. An analysis of data showed new investments in funds halved in the last six months of 2004. Still, inflows remained historically high, and the top fund of hedge funds grew 45% last year.

### **Hedge funds' institutional potential leans on funds of hedge funds**

Investment consultants have kept constant watch over the growth of hedge funds in recent years. Mercer Investment Consulting US now is providing its commentary on hedge funds' "institutionalization" dilemma and the greater role of funds of funds in institutional allocations. The firm says that while specialist firms still tend to dominate the hedge fund business, traditional institutional managers also are making their mark in a growing number of hedge fund programs. In a newsletter on hedge funds, Mercer officials said that of the 25 largest managers in its investment management firm database, 17 firms offered hedge funds. Concurrently, some hedge funds are offering long-only programs as lines begin to blur between the alternative and traditional sides of the money management business.

### **Pension funds may pump \$250 billion into hedge funds by 2008**

US Pension Fund managers, endowments and other institutional investors may be adding about \$250 billion to hedge fund management vehicles by the year 2008. According to a new survey conducted by the Bank of New York, and Consultant Casey, Quirk & Acito, half of the total of new money invested with hedge fund managers in 2003 were from the institutional managers. The new study suggested that as growing numbers of institutional investors continue to seek refuge in hedge funds, they could add up to \$300 billion of new assets into hedge funds by 2008.

### **Swiss schemes 'invest more in alternatives'**

Swiss institutional investors have invested more in alternative asset classes and real estate in 2004 - but their asset allocation "remains prudent" a survey sponsored by Credit Suisse Asset Management suggests. The survey, conducted by Lusenti Partners, polled 174 schemes, mainly large institutional investors, with a total wealth of CHF214.7bn.

## **Advisor/People News**

### **Old Mutual Asset Management establishes 2100 Capital**

Old Mutual Asset Management, the U.S. asset management group of Old Mutual plc, announced the establishment of 2100 Capital, a new firm formed by the group in conjunction with company founders William Landes, PhD, chief executive officer and chief investment officer; Joe Demmler, chief operating officer; and Steve Gorman, CFA, director of research. A diversified alternative investments company, 2100 Capital will serve both the institutional and retail marketplace, and provide a range of investments including a fund of hedge funds, multi-strategy proprietary hedge fund portfolios, a variety of single strategy hedge funds, a hedge fund seeding capability, and in the longer term, private equity capabilities. The company's product offerings will draw from strategies offered by other Old Mutual Asset Management member firms, from 2100 Capital's in-house investment teams, as well as from external managers not affiliated with Old Mutual.

### **Robinson to leave Attica**

Attica Alternative Investments co-founder Tony Robinson intends to step down from his position as chief strategist at the fund of hedge fund company in order to join Titan Trading Analytics.

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### **Olympia Capital's head of alternative investments to leave firm**

Olympia Capital Management, a Paris-based manager of \$4 billion, said its head of alternative investments, Veronique Courlier, will leave at the end of April. Marc Landeau, the firm's chairman and chief investment officer wasn't able to give a reason for the departure. Courlier, 44, joined Olympia Capital in 1997. Olympia Capital hired Konstantinos Iordanidis as head of European fixed income and global macro. Iordanidis will become co-investment chief before the end of the year.

### **Coronation Fund Managers appoints new CEO**

Coronation Fund Managers, the London-based fund of hedge funds manager, announced the appointment of its new Chief Executive Officer, Charles Barnick.

Charles will assume responsibility for the day-to-day management of Coronation's fund of hedge funds business with a focus on global business development for institutional clients and advisers. Charles has spent eighteen years in the financial services industry. Since 2003 he has been marketing hedge fund management solutions to institutional investors in continental Europe on behalf of Coronation. Prior to this Charles spent 5 years as Managing Director of financial markets IT solutions businesses and 7 years in Frankfurt as General Manager of Bloomberg LP. Charles originally started out in bond and foreign exchange sales and trading and holds a BA Hons in International Marketing.

### **Mark White joins the board at KGR Capital**

White has 28 years' experience in the investment management business, 13 of which were spent in Asia. Most recently he was CEO of JPMorgan Fleming Asset Management (UK) Ltd and was responsible for JPMFAM's institutional businesses in Europe, the Middle East, Africa, Asia and Japan. He was previously CEO of Jardine Fleming Asset Management in Hong Kong and CEO of Chase Fleming Asset Management (UK) Ltd in London. He is a past Chairman of the Hong Kong Investment Funds Association. White joined Robert Fleming as a research analyst in 1976 working first in the UK research department and later on the Far East desk in London.

## **Product News**

### **New Finance Capital launches Opus Credit Fund**

New Finance Capital launches Opus Credit Fund, a fund of hedge funds specializing in credit-related strategies aiming to outperform broad credit markets and achieve absolute return with low volatility.

Opus Credit Fund is structured as an absolute return complement to a long-only credit portfolio. The launch date will be May 1, 2005. The fund will allocate to the following strategies: Credit Trading Long/Short, Credit Arbitrage/Market Neutral, Structured Credit and Event Driven Strategies. The Cayman Islands domiciled fund charges 1% management fee and 10% performance and will be offered in USD, EUR and GBP.

### **HFR launches product to short hedge fund index**

HFR Asset Management is rolling out what is believed to be the first fund designed to short a hedge fund index. The fund is being offered to the firm's banking partners and will allow them to short the HFRX Global index and incorporate this position into structured products.

The index needed to reach several billion dollars in assets before shorting was viable. The syndicated rollout will have a cap of a couple of hundred million dollars and will enable banks to write any structured product with a put function to it. The fund will be offered to HFR partner banks such as Barclays Bank, Bear Stearns, Deutsche Bank, Dresdner Bank, Lehman Brothers and ABN Amro.

HFR is considering subsequent issues that might offer a similar shorting ability for its single-strategy indices. This will depend on the success of this first launch and there are also capacity issues to be considered with some strategies, such as convertible arbitrage and merger arbitrage, because of the limited size of the markets and the HFR indices.

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## Academic/Research

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### **The critique of pure alpha**

**Alexander Ineichen, UBS**

This report has three main sections. The objective of the report is to update, enhance and, hopefully, enrich the AIS (Alternative Investment Strategies) research effort. First, they discuss the two extreme contemporary views on the absolute returns phenomenon: a bubble akin to the recently deflated technology bubble, or a new paradigm in investment management akin to the introduction of benchmarks in institutional investment management some 30 years ago. Second, they distinguish between what they believe is active and passive risk management. Third, they discuss business issues related to changes within the investment management industry, as well as changes within the hedge fund industry. They call this report “The Critique of Pure Alpha” for two reasons. First, they find that there are some disturbing issues with respect to alpha: that its pursuit is a zero-sum-game and potentially not widely perceived as such; that alpha is not stable; that the reward from applying skill not static; and that not everyone who is talking about alpha is generating it, and not everyone who is expecting it is getting it. Second, they found that the title “The Critique of Pure Reason” would be more fitting, but that title had unfortunately already been taken.

### **Time-varying exposures and leverage in hedge funds**

**BIS**

Hedge funds are said to be nimble. They can quickly take large positions in various asset markets, only to unwind them as market conditions change. This flexibility and the ability to leverage positions are arguably the distinguishing characteristics that drive hedge fund returns but are also said to potentially add to market volatility. At the same time, little is known about hedge funds’ actual strategies. While some information about their assets under management and returns on equity is available, far less is known about their portfolios and use of leverage. Under what market conditions do hedge funds change their investment positions? How does the leverage employed by the funds change as market conditions evolve? This article provides tentative answers to these questions, with a particular focus on the period surrounding the peak in equity markets in 2000.

### **Funds of Hedge Funds or Investible Hedge Funds Indices: Which is the Best Investment Tool?**

**Daniel & David Capocci**

Hedge funds are becoming available to a broader spectrum of investors through funds of hedge funds and investible hedge funds indices. There is no formal official of the strategies applied but each database providers defines its own strategies, which can count as much as 20 different strategies. This study aims at analysing hedge fund strategies and determining so many different hedge fund strategies that exists by analysing into details the correlation patterns that exists between theses strategies. This study proves that investible hedge funds indices segregated per strategy are strongly correlated. They have also determined that the correlation between investible hedge funds indices is much higher than the average correlation between the individual funds of each hedge fund strategy. The aggregation of individual funds into indices diversifies accordingly the risk but leads also to the loss of one of the major advantage of hedge funds, which is their weak correlation. Given that hedge funds indices are constructed on a quantitative basis, a fund of hedge funds is the only vehicle that allows a trade-off between the number of funds to include into a portfolio in order to reduce the risk inherent to hedge funds investments while keeping the correlation at a low level. As long as the fund of hedge funds double-fee structure does not impact its performance and considering that the fund manager structure its investment in such a way to keep a low degree of correlation between the fund of hedge funds and traditional financial assets, such investment represents the best alternative for a traditional investor to invest in hedge funds and improve its risk-return profile.

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