



Engaged Investor Trustee Forum

May 2008

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Engaged Investor Trustee Forum 2008

- What is a Hedge Fund?
- How do Hedge Funds really work?
- What to expect from a Hedge Fund investment

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The Hedge Fund World.....



FAT CAT MANAGERS

Long Term Capital Management.....

.....Bear Stearns...

....Peleton....



SCANDAL

....Bayou founder sentenced to 20 years

IMPLOSIONS



"And finally..."

What is a Hedge Fund?

A Hedge Fund Manager

Relative vs. Absolute Asset Management

Risk Profiles

	Relative Returns	Absolute Returns
Return Objective	Replicate or beat a benchmark	Compound capital positively

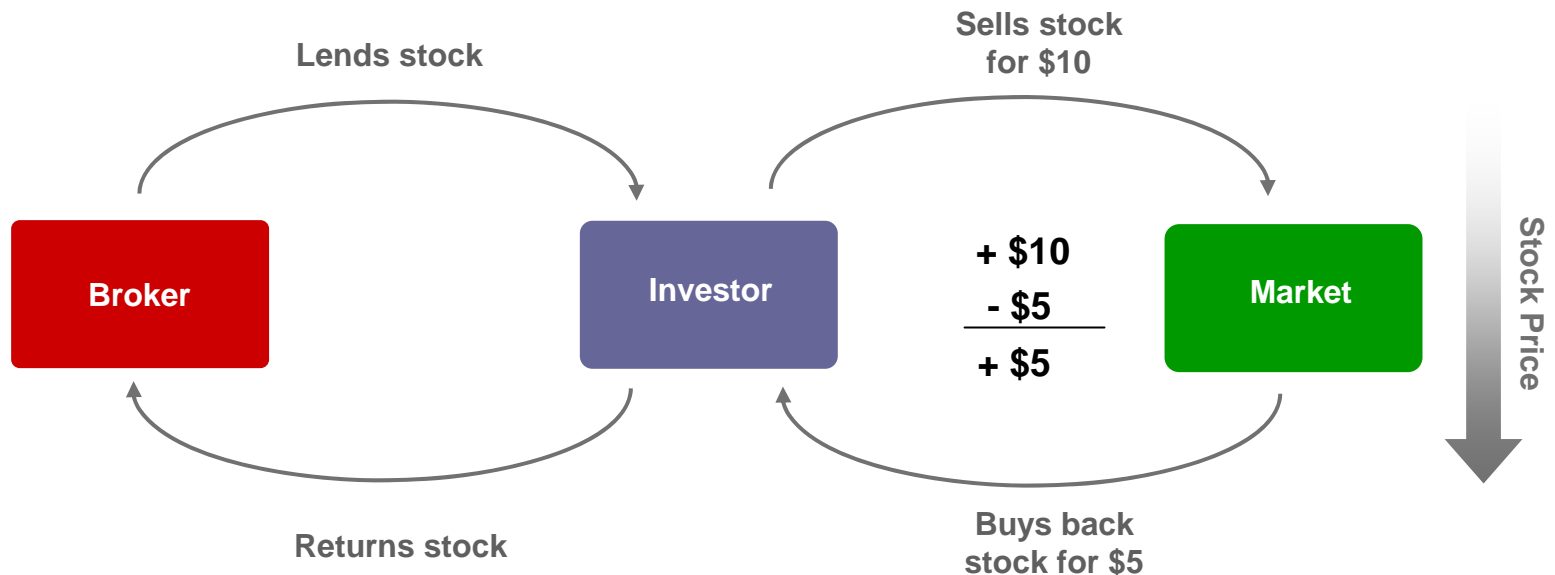
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How do Hedge Funds really work?

The Basics: Short Selling

Traditionally, hedge funds were defined or differentiated through their ability to short sell stocks.

Simply put, short selling involves borrowing a security and selling it in the open market with the expectation that the security will fall in value.



The short seller must eventually return the borrowed stock by buying it back from the open market. If the stock price falls below the price the borrowed stock was originally sold for, a profit is made.

How do Hedge Funds really work?

The 'L Word' : Leverage

Some Hedge funds employ leverage to amplify returns. Leverage can be achieved through:

- Borrowing external funds to invest more or sell short more than the original equity capital put in
- Borrowing through a brokerage margin account
- Financial instruments such as derivatives

However, not all hedge funds apply the same or high levels of gearing. Typically, higher volatility strategies are combined with lower levels of leverage.



How do Hedge Funds really work?

“Hedge Funds Not an Asset Class But a Way of Investing”

An asset class is defined by the characteristics of its asset:

- Common economic drivers
- Correlate with each other
- Similar risk / return characteristics

Hedge Funds:

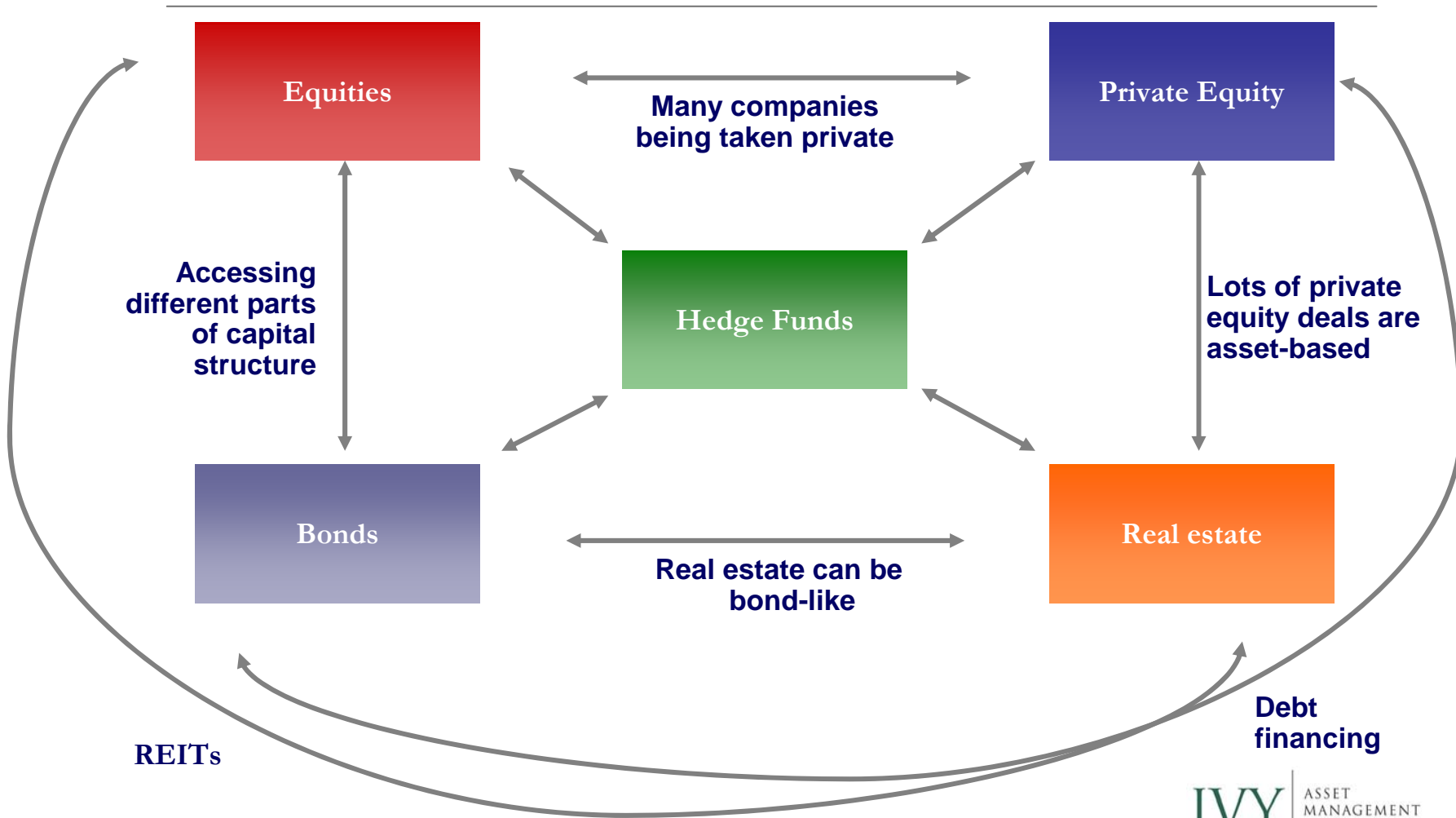
- Focus on a diverse array of complex and cutting edge strategies, holding individual securities of virtually every other asset class.
- Vary greatly in their risk / return objectives
- But do have similar legal structures



From a legal point of view Hedge Funds could be grouped as an Asset Class, but from an economic perspective they are a way of investing (into different asset classes).

How do Hedge Funds really work?

Increased Blurring of Asset Classes

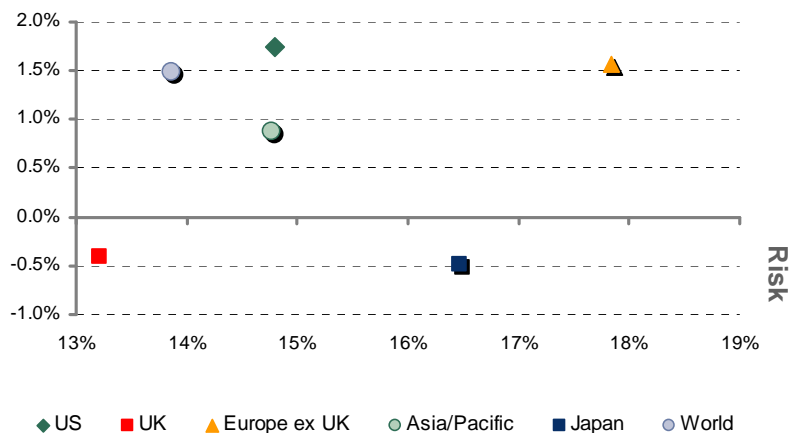


Different Strategies/Different Returns

International Equity Markets & Hedge Fund Strategies

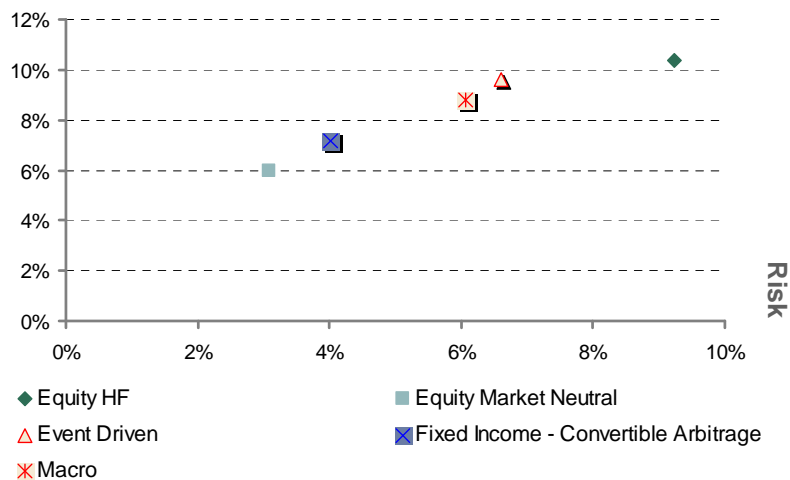
Risk / Return Characteristics over 10 years (April 1998 - March 2008)

Annualised Return



Source: MSCI Indices in local currency terms

Annualised Return



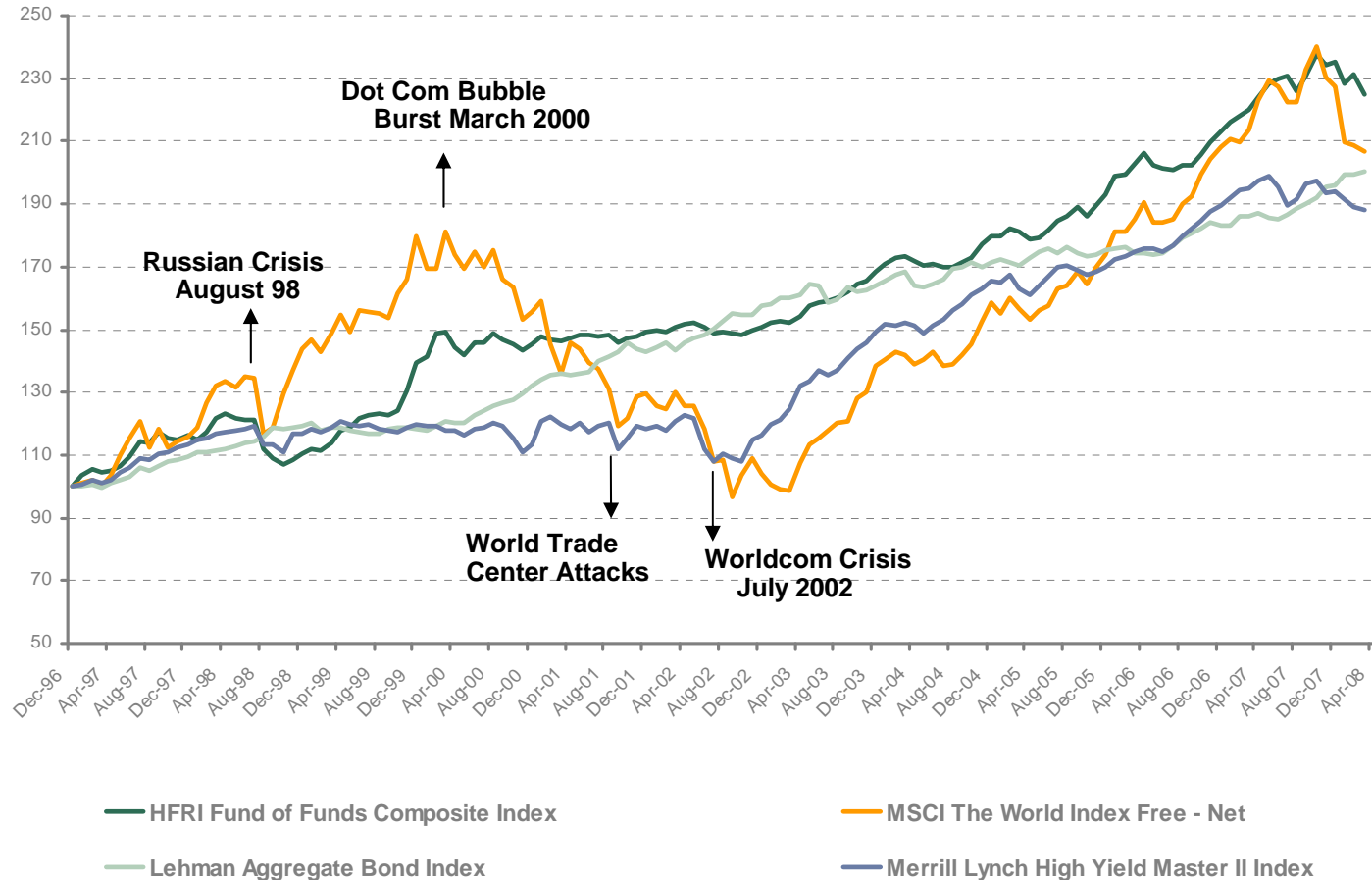
Source: HFR Indices

What to expect from a Hedge Fund Investment

- Hedge Funds - A Historical Perspective
- Considerations when investing in Hedge Funds
- What are the key risks with Hedge Fund investing?

Hedge Funds – A Historical Perspective

Hedge Funds and Traditional Asset Classes (January 1997 – March 2008)



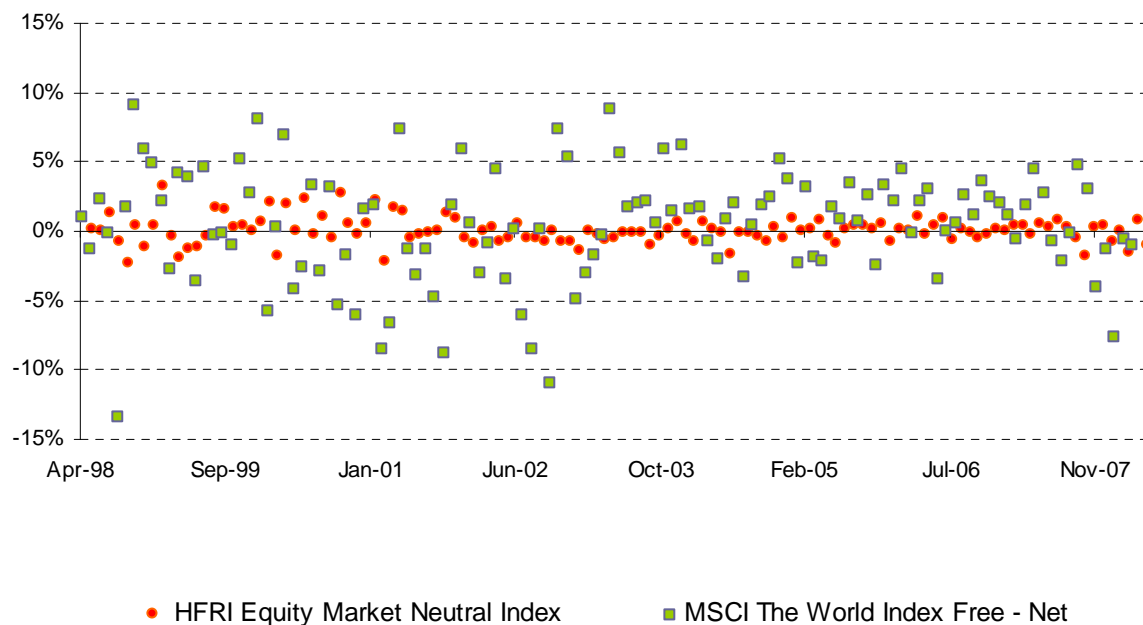
Source: HFR, MSCI, Merrill Lynch and Lehman Brothers

Hedge Funds – A Historical Perspective

Volatility of Returns

Monthly Returns of Equity Index and a Market Neutral Hedge Fund Index* Over 10 years (April 1998 – March 2008)

Monthly return



Source: Bloomberg, Ivy Asset Management

Ultimately People Want to Make Money!

- **Low correlation is not necessarily good, just selectively good.**
- **Confusion between correlation and capital protection during periods of stress.**



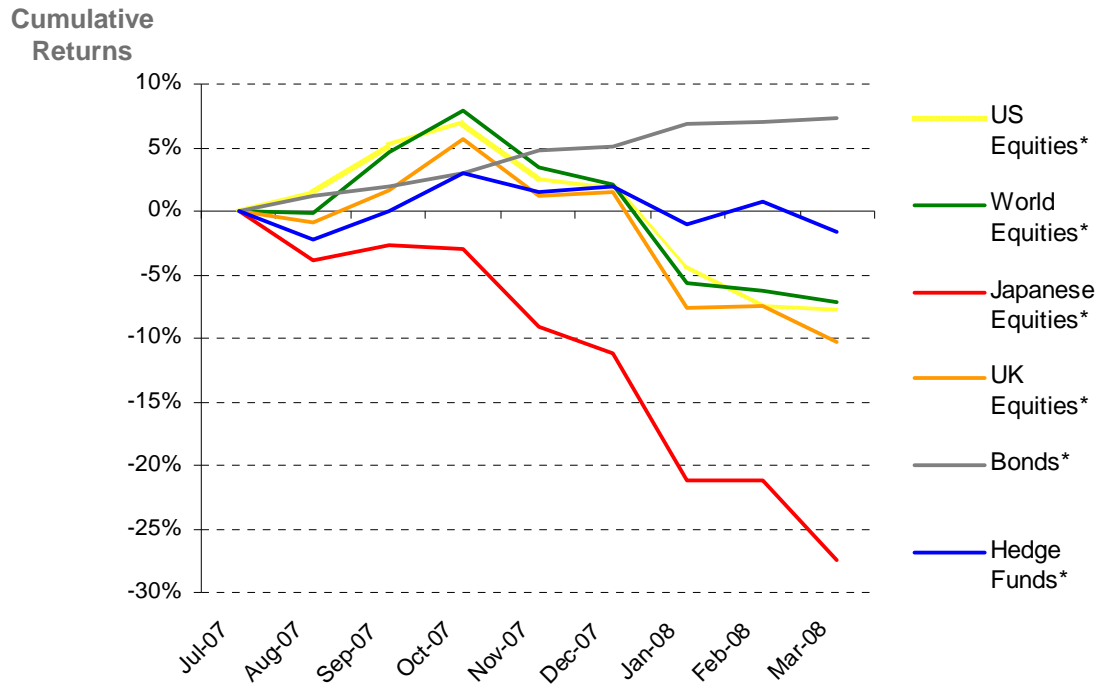
Warren Buffett

1st Rule: Don't lose money.

2nd rule: Don't forget the first rule.

Significant Downside Protection

Current "Credit Crisis" August 2007 – March 2008



Source: Bloomberg, Ivy Asset Management

	US Equities	World Equities	Japanese Equities	UK Equities	Bonds	Hedge Funds
Cumulative Return	-7.82%	-7.11%	-27.39%	-10.35%	7.34%	-1.63%

*Indices used for the above chart include the S&P 500 Index, MSCI World Index, Nikkei 225, FTSE 100, Lehman Aggregate Bond Index and the HFRI Fund of Fund Index.

Considerations when investing in Hedge Funds

Regulatory Environment



Often hedge funds are not registered with the regulatory authorities.

Risks with Investing in Hedge Funds

Key Person Risk

The ultimate success of a hedge fund often relies upon a small number of people at the firm. If something happens to these key people it may have a negative impact on the investment.

Going Deeper....

Headline Risk: Financial Market Contagion

- Unstable and excess leverage
- Short term performance periods and associated fees
- Structural limitations supporting market liquidity

Investment Risk: Asset Class

- Opportunity set and associated risks are often asset class specific
- Drivers within a respective capital markets should not be overlooked
- Interdependence of all market participants to support liquidity structure of capital markets

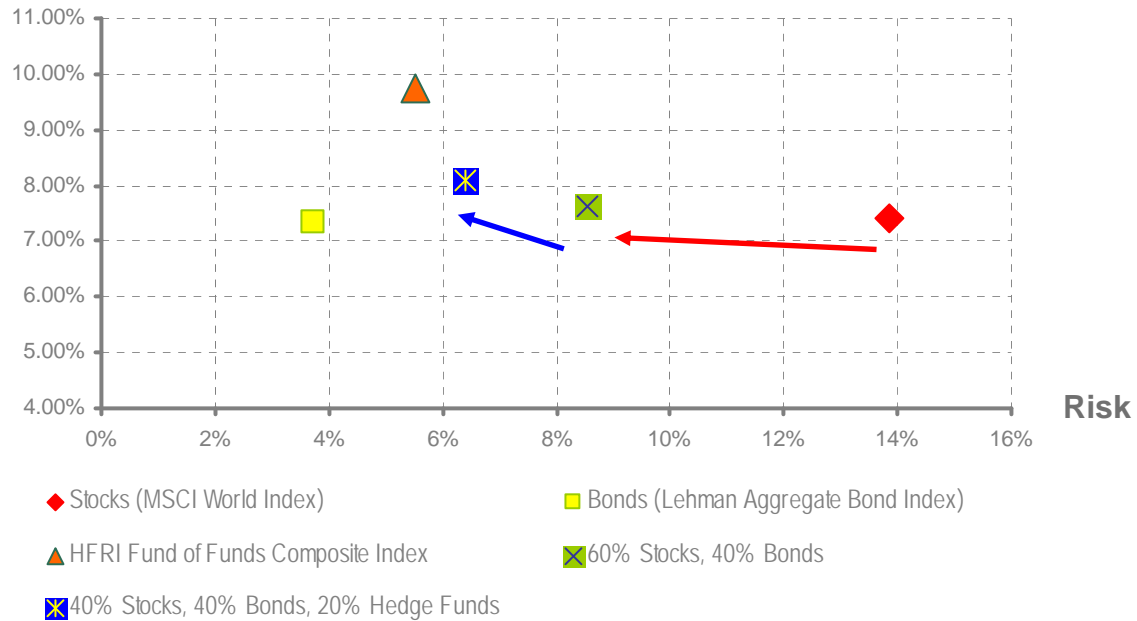
Investment Risk: Strategy and Style

- Strategies and Styles are increasingly transient and not distinct
- Concentrations develop with increasing frequency
- Naïve diversification based on hedge fund strategy 'labels' is a danger

Allocation to Hedge Funds Could Reduce Risk

Risk / Return Characteristics (January 1990 - March 2008)

Annualised Return



Source: Bloomberg, Ivy Asset Management

Endnotes

Past performance is not necessarily indicative of future results. Any forecast is not necessarily indicative of future or likely performance. The performance information and investment opportunities contained herein are for informational purposes only and are not to be construed as indicative of future performance or investment strategy of the fund.

The information regarding the indices is included merely to show the general trends in the periods indicated and is not intended to imply that the fund was similar to any of the indices in composition or risk. The benchmarks are used for comparative purposes only.

The Hedge Fund Research Inc's Fund of Funds Index ("HFR FoF Index") is an independently constructed index that is equally-weighted and comprised of an undisclosed number of hedge fund of funds. The HFR FoF Index is not actively managed and does not necessarily represent the performance that may be achieved by any particular hedge fund of funds. The HFR FoF Index includes the reinvestment of all income and is net of all fees. It is not possible to invest directly in the HFR FoF Index. Performance of the Fund may not be comparable to the performance of the HFR FoF Index.

The MSCI World Index ("MSCI World") is a free float-adjusted market capitalisation index that is designed to measure global developed market equity performance. As of May 2005 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The MSCI World Index is not actively managed, and its performance information includes the reinvestment of all income, and does not reflect the deduction of any expenses or fees. It is not possible to invest directly in the MSCI World Index. Performance of the Fund may not be comparable to the performance of the MSCI World Index.

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