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Hedge Fund Investments still extremely attractive

Ray Soudah, Founder of MilleniumAssociates discusses successfully acquiring and mastering alternative strategies and fund of funds on a global scale for traditional asset managers at the IFM 2003 Geneva conference

On February 05, 2003, Ray Soudah presented his conclusions on the trends facing the hedge funds markets and the alternatives available for traditional managers wishing to enter or expand their offering in this segment. Mr. Soudah indicated that the hedge fund investment alternative is still extremely attractive to high net worth individuals, wealthy families and increasingly to institutions. Such clients benefit from broad sources of absolute return (e.g. 2002 through August: CSFB/Tremont HF Index up .8% while S&P 20% decline and World Index 17% decline), low correlations with traditional investment strategies. This results from hedge fund managers employing skills-based strategies versus traditional market-based investments (index like). In times of bear markets, hedge funds consistently outperform major market indices and traditional long only equities and fixed income managers.

There are several keys to having the right business model to build and grow a successful hedge funds business. These factors include among others: a business head with hedge fund, marketing and management experience; staff with excellent trading and fund management experience; superior technical and operations infrastructure; appropriate risk management systems and processes; adequate capital (seed money and set-up costs); access to solid distribution network; appropriate compensation structure and a unique range of investment performance track record.

Soudah pointed out that there are still significant risks associated with hedge fund investments, fraud when proper operational controls are not established being at the top of the list but certainly not the only concern. Major losses like the most recent Beacon Hill disaster with losses of over $400 million are not only possible but to be anticipated. The market, therefore, has reacted aggressively by offering fund of funds to diversify the inherent risk of a single manager. These fund of fund managers help diversify portfolio volatility and reduce exposure to a single major risk event within one organisation.

Although a risky business, growth can still be seen as strong in the future with expectation of between 20%-25% annual growth over foreseeable future. Soudah articulated that this offered opportunities for traditional managers to enter the hedge fund industry and gain market penetration in a growing business. While the overall assets entering the investment class will grow, the number of funds is likely to shrink by close to 1,000 during the course of 2003. Based on current fund number estimates, this could be as much as a 20% drop year on year. This is being caused by an increase in consolidation caused primarily by the need for better distribution capabilities, better brand identities, limitation on capacity and the trend for investor transparency. Such a dynamic environment, offers opportunities for those firms wishing to enter or expand their hedge fund offering.

Entering or growing the business, however, needs to be well thought out and clear alternatives measured and the best implemented. Soudah pointed out that there are five primary alternatives available to traditional managers: organic growth, white labelling, joint ventures, mergers or acquisitions. Each alternative has distinct advantages and disadvantages but Soudah believes that acquiring firms along side organic growth is the best strategy for achieving scale within a reasonable timeframe. Further, he notes that fund of fund managers will become more important in the industry and allows entering and/or growth with lower risks. He notes the example of Man Group and their tremendous business model change since the mid-1990's. They built their alternatives business through initially leveraging their internal know-how and then bolting on key acquisitions. Man Group's most recent purchase of FRM depicts the growing importance of fund of fund managers versus direct hedge fund managers.

Note to Editors

MilleniumAssociates AG is headquartered in Switzerland, the heart of the Wealth Management Industry. The firm specialises in advising on Mergers and Acquisitions and strategy consulting with emphasis on private banking, family offices, asset/fund management and other Wealth Management businesses including life insurance. As a Swiss-based corporation, MilleniumAssociates AG is not part of an integrated investment house and the firm is therefore uniquely positioned to offer independent pure advice in order to maximise shareholder value for its clients.

Members of the team of experienced specialists have managed in the past, amongst other important deals, the acquisition of **Global Asset Management** with about CHF 20 billion assets under management, by UBS AG, and have participated in the acquisition of **Brinson Partners** by former Swiss Bank Corporation. In the fourth quarter 2000, MilleniumAssociates advised Credit Suisse on the purchase of **JO Hambro Investment Management**, a premier UK investment manager and hedge fund manager for high net worth individuals, with assets under management of circa CHF 4 billion. In the family office segment, the firm in mid-2001 advised on the deal between Chicago-based **Frye-Louis Capital Management**, Inc. and Swiss-based Credit Suisse, resulting in the latter's acquisition of a strategic HNWI business platform and CHF 2.5 billion in private client portfolios in the USA.

MilleniumAssociates' fully dedicated team of specialists are involved in numerous active Wealth Management advisory projects with assignments supporting clients with expanding global strategies as well as those seeking to determine their ideal strategic options including partnerships and alliances. The firm recently stated that it intended to donate at least one percent of annual gross profits to charity.

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