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Independent M&A Advisors to the Global
Wealth

Hedge funds have no single definition but have unique characteristics: part of AIM (alternative investment management family and fastest growing segment)

- Very little regulatory oversight,
- Low transparency for investors as not to give away investment strategy
- Typically structured as limited partnerships (not listed)
- Managing partners invest substantial own capital
- Low Barriers to Entry
- Low or negative correlation to stock and bond market
- Complex trading strategy
- Seek absolute returns
- Usually use leverage to generate higher returns but level varies depending on the fund
- Usually structured in offshore banking centres
- Managers have high discretion
- Receive both management and incentive fees
- High initial investment plus lock-up period for initial investment plus conditions to redeem shares
- No advertising but place funds privately
- Limited # of investors (institutional and high net-worth individuals) and usually limited fund size

Risks must be actively managed

Risks

- **Fraud when proper operational controls are not established**
- Mark to market risk when illiquid securities are purchased
- Human risk when the fund manager bails out
- Change of strategy risk when the manager does not stick to the original trading parameters
- Size risk when a fund gets too big to be effective (e.g. positions too large to move or the disappearance of arbitrage opportunities).
- Strategies are often neither market neutral or arbitrage but simple long only (e.g. emerging market strategies)
- Liquidity risk when a fund is inappropriately capitalized
- Strategy risk when hedge fund's strategy does not work

Fallout

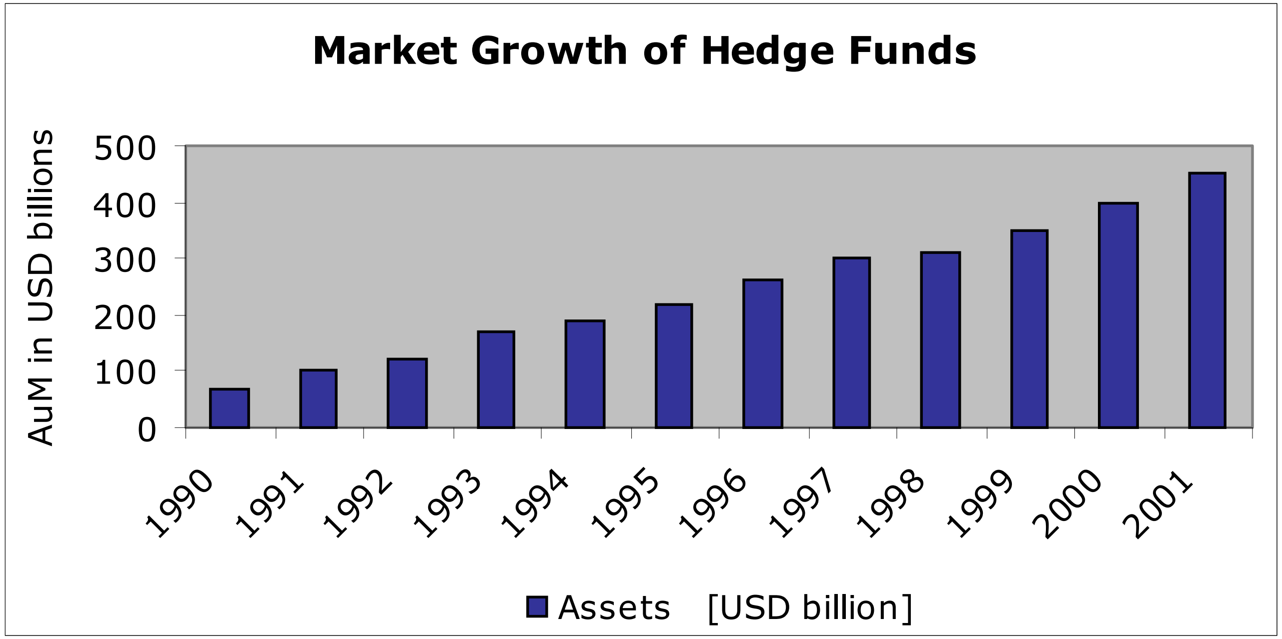
- Clients bear significant risk as when things go wrong with a hedge fund, an investor may lose everything
- Major Losses include:
  - Manhattan Investment Fund ($300 million)
  - LTCM ($3.6 billion)
  - Valrocane Limited ($700 million)
  - Askin Capital ($420 million)
  - Argonaut Capital ($100 million)
  - Beacon Hill ($400 million)

HF Fund of Funds are designed to mitigate the impact of such risk events and reduce portfolio volatility

Despite the risks, the hedge fund market is growing rapidly worldwide on an extremely fragmented basis

According to market estimates, the market size varies between $400-$500 billion assets under management. Due to the lack of transparency, these estimates offer only limited accuracy and may be over $600 billion. Although the market is much smaller than the $4.5 trillion mutual fund industry, it is still very sizable and growing faster. 90% is managed out of the United States with Europe growing rapidly. Roughly 25% of hedge funds are fund of funds.

TASS Tremont, the AIMA and other sources estimate that the hedge fund market will continue to grow at 20%-25% per annum. The market is very fragmented with about half the funds making up 90% of total assets.



The total number of hedge funds is estimated between 5,000 and 6,000. The top 20 managers only have a fraction of the global market share

Top Ten Funds

1. Moore capital mgt 8.0 bio
2. Farallon capital mgt 7.8
3. Andor capital mgt 7.5
4. Maverick capital 7.5
5. Citadel inv group 7.1
6. Angelo Gordon 7.0
7. Soros fund mgt 7.0
8. Pequot capital mgt 6.5
9. Och Ziff cap[ital mgt 6
10. Renaissance tech corp 5.6

(as per financial news 30 June 2002)

Source: TASS: A prominent alternative manager offering market research
AIMA: Alternative Investment Management Association
Hedge fund Associates
Own estimates based on publicly available information

There are several generic strategies for entering and/or growing the hedge fund (AIM) business

- Build Organically
- White Label
- Joint Venture
- Merger
- Acquisition

Organic growth has the lowest chance of short-term impact unless a large scale business already exists

Advantages

- Low financial exposure
- Speed of initiation
- Low influence on culture
- Minimal capital (no goodwill)

Disadvantages

- Lead time to market
- No track record
- Lack of know-how
- Dilution of bottom-line (investments in infrastructure, marketing, human resources and other setup costs)

White label: offer hedge funds managed by third parties

Advantages

- Low financial exposure
- Speed of initiation
- Low influence on culture
- Minimal capital (no goodwill)
- Lead time to market
- Build on established track record

Disadvantages

- Profits shared
- Know-how transfer not very high
- Reliance on third party risk controls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Key success factors and considerations for acquisitions

Characteristics of the Target Firm

- Acquisition Key Parameters
  - Strong CEO and management team
  - Efficient infrastructure (systems and risk control processes are key)
  - Compliance with all regulatory registrations/authorisations
  - Tax optimised legal structure
  - Solid performance track record
  - Success and team driven culture
  - Appropriate salary/incentive structure
  - Within budget constraints
- Secondary Parameters
  - Size of Assets Under Management
  - Geography
  - Brand strength
  - Distribution
  - Overlapping businesses

Integration Success Criteria

- **Short time from signing to closing**
- **Friendly transaction environment**
- **Set up of autonomous business unit**
- **Cultural clashes to be managed**
- **Acquisition of a digestible size**
- **knowledge transfer task force**
- **Integration plan needs to be established**
- **New fund launch task force**

Case Study: Man Group

The Man Group has two distinct business units: Man Financial and Man Investment Products (80% of profits)

Man Financial (1783)

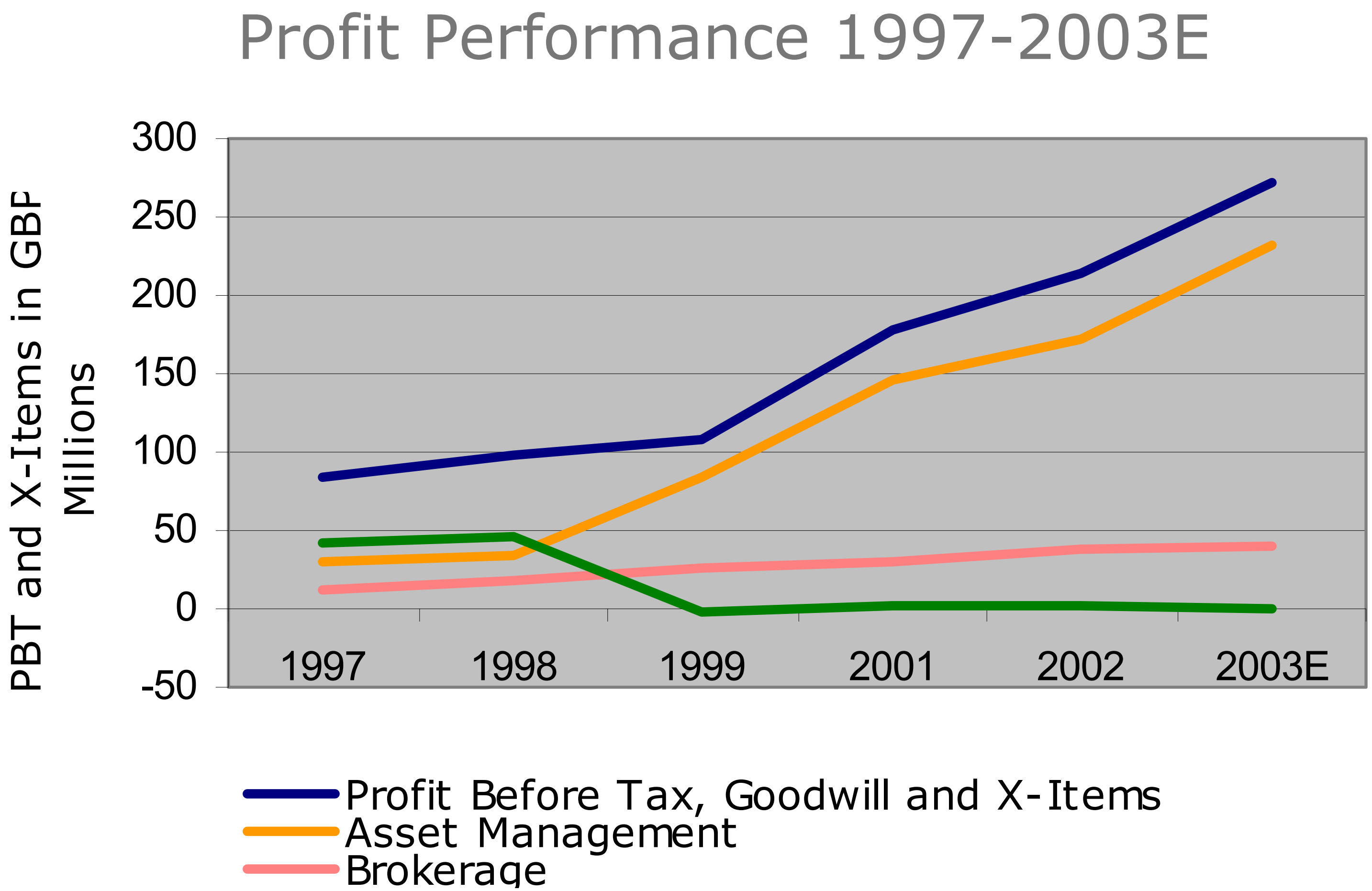
- Institutional Futures/Securities
  - Brokerage services for financial futures, energy, metals, foreign exchange, agricultural futures, global execution services, securities
- Man Futures Retail Clients
  - 24-hour worldwide futures execution and clearing services, trading capabilities
  - Managed Investments Division
  - Finds top managed futures and hedge fund products.
- Man Securities Retail Clients
  - Option order execution
- International Clients
  - Services international private (non-US) clients.
  - Products include futures, options, equities, CFDs and foreign exchange.
  - Man Direct offers full service, advisory, execution-only, and managed accounts
- Managed Futures Research
  - Database provides performance information on over 400 CTAs
- Clearing Services
- Online Trading Services

Man Investment Products (1983)

- Fund Managers & Strategies
  - AHL Diversified - Managed Futures
  - Man-Balanced - Market Neutral Equities
  - Man-Barnegat - Relative Value / Arbitrage Investing (FI and currency)
  - Man-Drake - Equities Long / Short Investing
  - Man-Glenwood - Multi-Strategy Investing
  - Man-Response - Short-term Futures Trading
  - Man-Vector - Managed Futures Full Cycle Trading
  - Marin - Convertible Bond Arbitrage
  - RMF Products and Strategies
- Primary Fund Manager Details
  - *AHL (Adam, Harding & Lueck)*: largest manager, established in 1983, trades in more than 100 global derivatives markets, from stock and bond futures to currencies, oil, gold and grain. Uses systematic approach applying primarily trend-following strategies. (Owned by Man Group since 1987)
  - *Man-Glenwood*: does not manage investors' funds directly but allocates funds across a range of strategies and selects between 80 to 100 specialised hedge fund managers expert in the utilisation of these strategies. (Owned by Man Group)
  - RMF: a major European provider of alternative investment strategies. Has a broadened range of investment management content, enhanced strength in tailored solutions and access to other asset classes including private equity and high yield; Focus on asset allocation

Acquisition reflects growing importance of FOF Managers

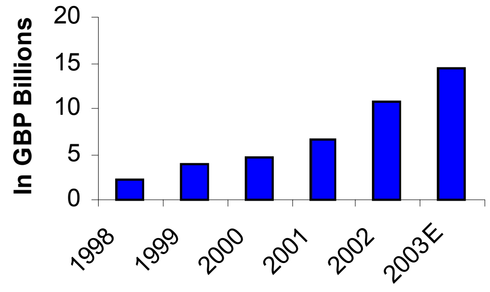
Case Study: Man Group
Man's profit structure has been redefined



NB: 99/00 excluded due to extraordinary loss and 15 months accounting. PBT excludes extraordinary items and goodwill
Based on UK fiscal year

Case Study: Man Group
Man Investment Products was built with organic growth and acquisitions

AuM Development



The alternative business grew slowly until 1998 and then quickly thereafter driven by acquisitions, new fund launches and a favorable overall hedge fund market

Organic growth by leveraging brokerage

- Alternative activities began as a way to hedge its own and its clients' positions.
- In the early 1980s, it moved into alternative investments. In 1983 establish AHL a fund manager. Man launched the first guaranteed funds in the futures world in 1985
- Leverage skills in futures trading (specialist investment managers supported by in-house resources, for example: areas of financial engineering, risk management, information technology and efficient market access)
- Leverage distribution network (Regional Offices in conjunction with worldwide network of distribution partners – typically, private banks and independent financial advisers. Also, strategic alliances and joint ventures with international or regional financial institutions)
- IPO in 1994 help raise capital and offer means for future capital increases

Recent activities

- October 2002: Man IP 220 Series 4 launch raised a record $686 million of client money
- May 2002: Acquired RMF for $833 million with $8.7 billion AuM; leading provider of alternatives in Europe
- Other 2002: The global launches of Man AP Strategic Series 1 Ltd and Man AP Strategic Series 2 Ltd raised $426 million. Joint venture sales, including OM-IP 220 Series 7, raised $298 million, other launches amounted to $445 million and open-ended funds a further $807 million. The number of intermediaries stands at 1,148, up 14% from 31 March 2002 .
- October 2001: Man IP 220 Plus (Series 4) Limited fund raised the equivalent of over $460 million ahead of the Series 3 previous record launch which closed in June after raising $430 million.
- August 2001: Announced they will expand its Operations in the US led Man’s Global Director of Sales and Marketing.
- August 2000: Acquired Glenwood Capital Advisors and Glenwood Global Management as well as a final 40% stake in Man-Glenwood it did not already own. Total FUM purchased was $1.4 billion.
- March 2000: To focus on core businesses, sold agricultural products business was completed to a management buyout team.

With AuM of over GBP 14 billion, Man is currently one of the largest hedge fund groups in the world. It also has one of the longest track records dating back to 1983.