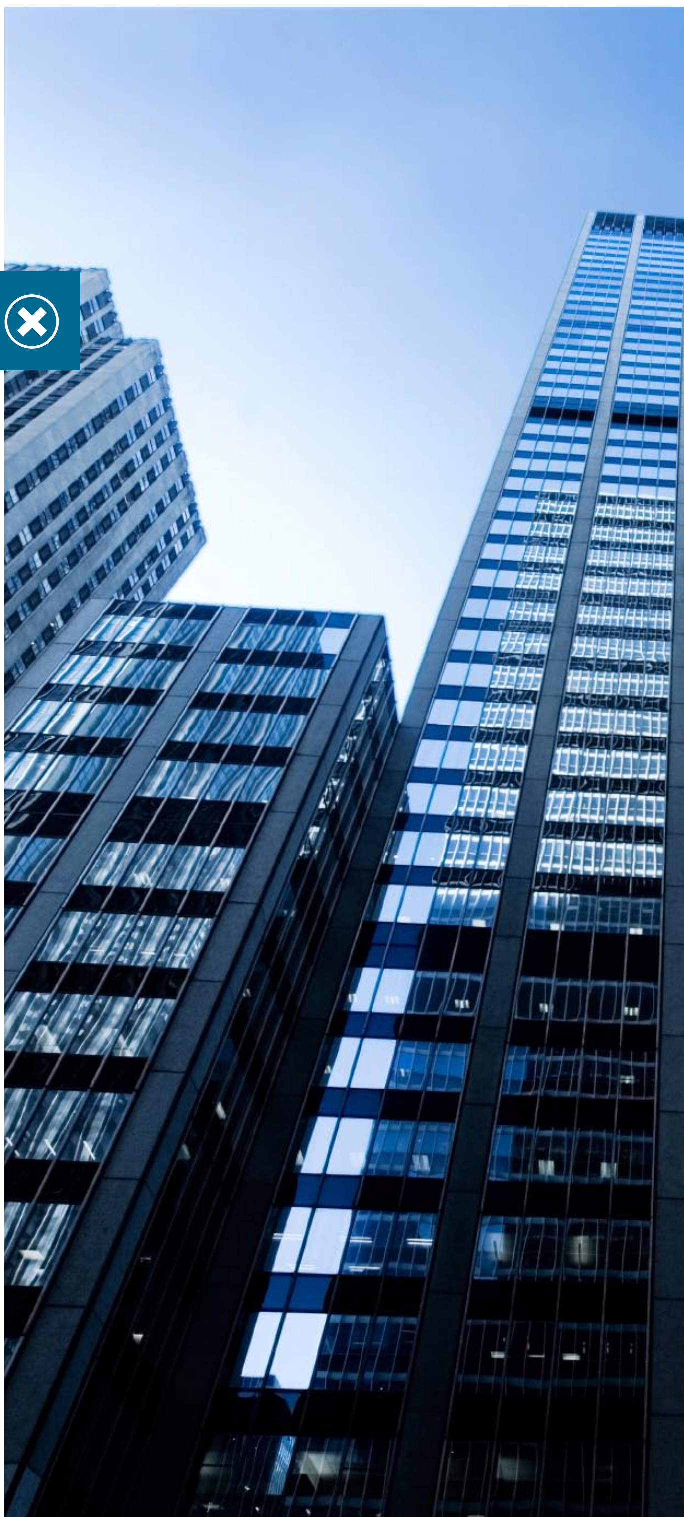


Alternative Investment
Managment Association

Australia

Hedge Fund Booklet

JANUARY 2009

IN CONJUNCTION WITH

contents

1.	About AIMA	3
2.	What are Hedge Funds?	5
3.	The Hedge Fund industry	8
4.	Hedge Fund Strategies	9
5.	History of Hedge Funds	15
6.	Regulation of Hedge Funds	17
7.	Return attributes of Hedge Funds	19
8.	Allocation to Hedge Funds in a Diversified Portfolio	23
9.	Fee Structures	29
10.	Hedge Funds in Australia	33
11.	Hedge Fund Structure	35
12.	Hedge Fund Risks	37
13.	Hedge Fund Glossary	39
14.	Appendix	46

About AIMA

As the only representative global hedge fund association, AIMA, the Alternative Investment Management Association, has over 1,200 corporate members worldwide, based in 47 countries. Members include leading hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting services and fund administrators. They all benefit from AIMA's active influence in policy development, its leadership in industry initiatives, including education and sound practice manuals and its excellent reputation with regulators and policy makers, worldwide.

AIMA is a dynamic organisation that reflects its membership's interests and provides them with a vibrant global network. AIMA is committed to developing industry skills and education standards and is a cofounder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists.

Its objectives are:

- To provide an interactive and professional forum for our membership and act as a catalyst for the industry's future development;
- To be the pre-eminent voice of the industry to the wider financial community, institutional investors, the media, regulators, governments and other policy makers; and
- To offer a centralised source of information on the industry's activities and influence, and to secure its place in the investment management community.

Disclaimer: This report has been prepared by Zenith Investment Partners (Zenith) with the assistance of the Australian Chapter of AIMA (AIMA Australia). The report may contain recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Each reader should assess either personally or with the assistance of a licensed financial adviser whether any Zenith recommendation or advice is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Neither AIMA Australia nor Zenith accepts any liability, whether direct or indirect arising from the use of information contained in this report. No part of this report is to be construed as a solicitation to buy or sell any investment. The performance of the investment in this report is not a representation as to future performance or likely return. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. Zenith usually receives a fee for assessing the product(s) described in this document against accepted criteria considered comprehensive and objective.

Investment (*noun*);
the choice by the individual to risk his/her savings with the hope of gain.

What are Hedge Funds?

HEDGE FUNDS ARE INVESTMENT VEHICLES THAT EXPLICITLY PURSUE ABSOLUTE RETURNS ON THEIR UNDERLYING INVESTMENTS. The appellation "Absolute Return Fund" would be more accurate, not least as not all hedge funds maintain an explicit hedge on their portfolio of investments. However the "Hedge Fund" definition has come to incorporate any absolute return fund investing within the financial markets (stocks, bonds, commodities, currencies, derivatives, etc) and/or applying non-traditional portfolio management techniques including, but not restricted to, shorting, leveraging, arbitrage, swaps, etc. Hedge funds can invest in any number of strategies and they are perhaps most readily identifiable by their structure; typically a limited partnership (the manager acting as the general partner and investors acting as the limited partners) – although in Australia the trust structure is common - with performance related fees, high minimum investment requirements, restrictions on types of investor and entry and exit periods.

To "hedge" means to manage risk. Any given money manager may make an allocation/investment; if this same manager simultaneously makes an allocation to an allocation/investment specifically designed to balance or counter-act any negative performance from his position then this would be his hedging position.

There are many types of perceivable portfolio risk - Market, Interest rate, Inflation, Sectoral, Regional, Currency to name some (see a later section in this document). Hedge fund managers can utilise the complete arsenal of financial weapons (holding cash, short selling, buying selling or swapping options, futures, commodity and/or currency futures, etc.) and are expert in devising hedging positions for most conceivable risks.[1]

The term hedge fund was originally used to describe a type of private investment arrangement that charged investors a performance fee, used leverage to magnify returns and utilized short selling to limit market risk. This description still fits many hedge funds but by no means all.

There is no legal or regulatory definition of a hedge fund in Australia and the range of funds covered by the term is very wide (see a later section in this document). Not all use leverage. Not all engage in short selling. And a few are now even quoted on the ASX and open to retail investors.

In contrast to traditional, long-only asset managers, hedge funds manager tend to have a number of extra tools in their toolkit, which they use to increase returns and manage investment risk.

They include:

~ Going short listed stock to generate returns and/or hedge market exposure. Going short involves borrowing stock and then selling it in order to profit from the value of the security falling.

~ Using leverage to magnify returns. Leverage in this context means buying securities using borrowed money.

~ Employing derivatives to generate returns and/or reduce risk. Derivatives can be a very efficient way of increasing exposure and therefore potential profit/loss or of hedging exposure thereby reducing risk.

~ Trading more actively than traditional managers.

1. Eurekahedge (www.eurekahedge.com)

But none of these characteristics define hedge funds because, while some hedge funds will share some or all or many of these characteristics, other do not. For instance, as mentioned above not all hedge funds use leverage or derivatives.

But there are some other common features that will assist the reader to develop a working definition of hedge fund. We list them below:

~ Perhaps the one feature that is common to virtually all hedge funds is the fee structure. Typically hedge funds will charge investors an annual management fee of 1.5-2.0% and a performance fee of 20%. This means managers are heavily incentivised to generate good performance for investors. These performance based fees may also be accompanied by a high watermark and sometimes a hurdle rate of return.

~ Skill based investment strategy with less, if any, emphasis on market movements to deliver returns:

~ Capacity constrained investment strategies;

~ Co-investment in the portfolio by the manager

~ The possibility of a lockup period and less frequent fund liquidity

The major perceived attractions of hedge funds are their ability to generate returns in a manner that does not rely on the normal investment cycles, using proprietary trading strategies, and their low correlation to normal market movements. Hedge funds have shown the ability to deliver consistent absolute returns, with less volatility than traditional asset classes if the appropriate comparison is made. Thus, hedge funds may be used as part of a wider portfolio of conventional share, property and fixed-interest investments to smooth out the volatility of overall returns.

Because they are not trying to outperform the benchmark per se, hedge funds are also termed 'non-benchmark-aware' funds. But because they are seeking absolute performance, hedge funds generally have fewer risk constraints than traditional investment funds: they do not have to construct their portfolios so as to reflect the index.

Portfolio (*noun*);
an appropriate mix
or collection of investments

The Hedge Fund Industry

According to Chicago-based Hedge Funds Research (HFR), there are nearly 10,000 hedge funds and fund of hedge funds – funds that invest in hedge funds – worldwide, with nearly one-third practising long-short equity investing, the largest category.

HFR estimates that the industry has grown from a modest US$39 billion in 1990 to $1,800 billion at September 2007.

In Australia, according to Hatfield Liptak Advisors, the amount invested in hedge funds is estimated at A$87.5 billion at the end of 2007 up from A$63 billion (according to Axiss Australia) in 2006. In 2006, according to Axiss Australia, there were 66 single-strategy managers, offering 130 investment products, and 17 managers of fund of hedge funds, offering 58 discrete products.

Hedge Fund Strategies

There is a plethora of hedge fund strategy classifications and to say that, even within one strategy, any artificial hedge fund grouping is homogenous would be misleading. There is no such thing as an average hedge fund- the average is merely an artificial amalgam of the universe's strategic eccentricities. The best that can be achieved is to broadly define the strategic focus of various strategic groupings of managers and the instruments they typically deploy in the pursuit of these strategies. Below we have first outlined the broad philosophies and constructs deployed across any strategy and these should be born in mind as potentially applicable on an either/ and/ or basis when addressing any individual hedge fund strategy. These individual strategies are further expounded upon below.

Broad Philosophies and Constructs across all fund manager types are as follows:

Quantitative vs Qualitative

Quantitative Managers employing quantitative strategies express their investment sentiment through statistical and quantitative techniques and/or factor models. These model driven strategies can exploit arbitrage opportunities as they identify, or isolate them. They also have the capability to place a high volume of trades in comparison to other methodologies where orders need to be manually originated.

Qualitative Managers employing qualitative strategies express their investment sentiment through fundamental, bottom-up and/ or macro analysis predicated on their investment processes and philosophies. Whilst these processes will often feed into protocols as part of the trade's evolution these protocols do not determine trade idea origin. It is worth noting that whilst some strategies are often associated with or deploy a more quantitative (Macro, Arbitrage, CTAs) or qualitative (Equity Long/Short) bent, most strategies employ some elements of both in the final iteration of their portfolio.

Directional vs Market Neutral:

Hedge Fund portfolio strategies can be directional or market neutral in their exposure. This is typically in line with the portfolio manager's investment philosophy and can involve a manager maintaining their net exposure within a certain range, with 0% net exposure being the target level for market neutral managers. The underlying logic underpinning a market neutral strategy is often associated with the uncorrelated returns of a market neutral portfolio in comparison to the directional universe of its constituent positions.

Individual Strategies

We list the major strategies below, followed by fuller descriptions.

Equity Hedge:

~ ***Equity Long/Short (special case market neutral):***
~ ***Equity Event Driven: Merger arbitrage.***
~ ***Equity Event Driven: Special situations***
~ ***Equity Long Bias***
~ ***Equity Short Bias***
~ ***Emerging Markets***

Fixed Income/ Credit Strategies:

~ ***Capital Structure Arbitrage:***
~ ***Credit long/short strategies***
~ ***Special Situations***
~ ***Distressed securities strategies***

Futures/ CTAs/ Options Trading/ Convertible Strategies:

~ ***Volatility Arbitrage***
~ ***Convertible bond arbitrage***
~ ***Gamma trading***
~ ***CTAs***
~ ***Macro (Tactical Asset Allocation):***

Multi-Strategy

Fund of Funds

Fuller descriptions for the individual strategies are:

Equity Hedge:

Equity Long/Short (special case market neutral):

Equity Long/Short funds build their portfolios from long and short positions in publicly traded equity securities. Investment philosophies can address positions for both directional and hedging sentiment. As a result the portfolio may be net long or short and varies in accordance with manager sentiment: Usually intended to produce positive results irrespective of broader market activity. Individual managers often specialise and this can vary across sector, geography, market capitalisation or any combination thereof.

If the manager runs the investment portfolio essentially without long or short bias, namely a neutral market exposure or a neutral dollar exposure or even a neutral market beta i.e. zero, then the strategy is called market neutral. Typically there will be tolerances that allow variation from neutrality within limits.

Equity Event Driven: Merger arbitrage.

This strategy focuses specifically on announced merger and takeover announcements and/or activity. One example of positions taken is for a manager to take a long position in the target company's stock and, (dependant on the corporate activity), a corresponding short position in the acquirer's stock. The goal of this strategy is capturing the spread from original value to that which will crystallise, post-event. There are various factors that will impact on the probability of, and timeline for, the conclusion of each event.

Equity Event Driven: Special situations

Special Situations strategies involve trading securities of companies involved in anticipated or actual capital market corporate events. Examples include spin-offs, divestitures, re-organisations, liquidations, restructurings, and share buybacks.

This is similar to merger arbitrage in that various factors can impact on the probability of, and timeline for, conclusion of each event.

Equity Long Bias

Some managers seek to extract returns from both long and short positions in individual equities. However, they will have a structurally higher allocation to long positions and will incorporate short positions as a means of hedging or dampening volatility. Equity Long Bias managers tend to show a stronger correlation to equity indices, with this correlation increasing in line with their net long directionality. Managers in less developed markets, especially those with less developed stock borrowing regimes, may often operate with a long bias.

Equity Short Bias

A few managers run hedge funds with a consistent short bias. They vary the degree of gross and net exposure according to their perception of individual opportunities. Short biased funds deliver performance which tends to be negatively correlated to markets and they often perform well at times of high equity and bond market volatility. They may be included in broader investment portfolios as a perceived hedge to broader equity market performance.

Emerging markets

The term 'emerging markets' was coined 25 years ago by the World Bank to refer to the markets of economies that are industrialising but are still well below the Gross Domestic Product (GDP) per capita levels of the advanced ones. But the term now covers a vast range of economies, ranging from African basket cases to the second-largest economy in the world, China. Since a pivotal report by investment bank Goldman Sachs in 2003, emerging markets has been heavily influenced by the acronym Goldman Sachs gave to the big four emerging markets: the 'BRIC' nations, namely Brazil, Russia, China and India.

This strategy invests in equity and debt of emerging markets, which are stock markets in countries that have recently industrialised or become free markets. Emerging markets are treated as a separate asset class, with its own risk/reward profile. This asset class is considered the most volatile of the mainstream asset classes, capable of giving huge (50 per-cent-plus) investment returns in a good year, but just as easily capable of losing 40 per cent in a bad year.

Fixed Income/ Credit Strategies:

Capital Structure Arbitrage

These managers implement strategies across a company's capital structure, seeking out any dislocations between the constituent components. Any and all of the following may be used: Debt versus equity, senior versus subordinated debt, share class arbitrage.

Managers may use quantitative screens or fundamental analysis to highlight trading opportunities, which may exist either within the debt structure or across equity and debt securities of the company.

Credit long/short strategies

This strategy involves taking long and short positions in debt instruments, seeking opportunities between the corporate credit of companies in similar sectors or that are otherwise strongly correlated. Although often a relative value play, predicated on mean reversion of credit spreads, variable bias can allow for the strategy to have either long or short net exposures which can be driven by either bottom-up views or top down analysis of each position.

Special Situations

These managers seek out opportunities in the corporate events that may affect the valuations of securities within a company's capital structure. These include mergers and acquisitions, spin-offs, re-organisations, share buy backs, bankruptcy, receivership and share class arbitrage. Given the diverse and niche opportunity set involved, the fund manager often operates within a broad mandate so they can consistently find interesting opportunities in both rising and falling markets. The broad mandate and specialised nature of the strategy means they can deliver a portfolio that is uncorrelated to that of many other managers.

Distressed securities strategies

These managers look to invest in securities (regular bonds, debt and trade claims) trading at distressed levels, where the company may be undergoing bankruptcy, corporate restructuring or otherwise in distress. Thorough analysis determines the recovery scenario for each position and further risk analysis provides a clear understanding of whether the securities' price fails to reflect the company's intrinsic value. Timing, legal expertise and corporate experience are all key in this strategy and, as distressed funds will be predominantly long a company's debt, short positions in the equity or debt of a company may also be taken.

Futures/ CTAs/ Options Trading/ Convertible Strategies.

Volatility Arbitrage

This investment approach seeks to exploit volatility pricing discrepancies across related instruments. Managers pursuing this strategy can express their arbitrage in a number of ways: arbitraging implied versus actual option volatility, volatility of similar options on different companies, warrants and options across the same companies and dispersion arbitrage across the difference between volatilities of an index and its constituents. Frequently quantitatively driven, some volatility managers combine their models (often market neutral, seeking to profit from volatility, mean-reverting tendencies) with a discretionary fundamental perspective on future levels of volatility.

Convertible bond arbitrage

Fund managers engaging in this strategy look to buy or sell convertible bonds with predetermined and fixed conversion or redemption features. Where the price of the convertible bond differs from the sum of the value of its constituent instruments this spread can be captured via an arbitrage: the bond can be bought or sold at discount or premium to fair value and hedge one or more of its components, often shorting the underlying equity of a mis-priced equity option.

Gamma trading

Gamma trading hedge funds seek, through trading derivatives, to take advantage of anticipated or unanticipated significant dislocations in financial markets. Gamma trading opportunities are sourced through the comparison of the implied volatility embedded in an option with recent realised volatility. Where there is a disconnect, more fundamental analysis may uncover its determinant therefore the potential catalysts for future changes in volatility.

CTAs:

Commodity Trading Advisors seek to implement their strategies via the global diversified futures markets, across interest rates, equity indices, currency and commodities. These managers often build their portfolios using mid-long duration position models (trend-following and/or pattern recognition) or short-term, trading, strategies. This investment strategy is heavily quantitative with integration of factor models, protocols and automation across the funds management structure.

Macro (Tactical Asset Allocation)

Macro funds express a directional sentiment through positions based on their views of macroeconomic, market trends and/or events. Whilst primarily associated with the utilization of futures, forwards and options to implement trades in currency, bond or equity markets, they can deploy other instruments. Macro funds are usually global in nature, but also operate geographical mandates.

The merits of a macro strategy lie in its perceived strong and un-correlated performance, albeit delivered with relative volatility. They are sometimes viewed as diversifiers and potential out-performers in periods of market dislocations and stress.

Multi-Strategy:

This group of hedge funds have a great deal of latitude to express investment sentiment and strategy through a variety of instruments, asset classes and geographies. The multi-strategy model can work either through a single portfolio with one portfolio manager/CIO making the final allocational decisions or with multiple underlying segregated portions of the portfolio run by multiple portfolio managers/analysts, reporting up into a broader CIO function/ investment committee (or a combination of both of these). These strategies invariably have the ability to increase and decrease exposure to any underlying instrument, asset class, theme or view in line with macro or micro strategic allocation decisions.

Whilst the merits of the strategy include some implicit diversification and access to multiple areas of instrument expertise for investors, this same broad mandate can be a detracting factor for pools of capital that are allocated on an instrument or geography-weighted basis.

Fund of hedge funds

The fund of hedge funds approach combines these strategies: a single fund invests in multiple hedge fund managers, often diversified across strategies, asset classes and geographic regions, with the fund manager 'managing the managers' – choosing the managers, and balancing the overall risk and return characteristics of the fund. Investment returns, volatility and risk vary enormously among the different hedge fund strategies. Some strategies use leverage and derivatives, while others are more conservative and use little or none of these tools. Some strategies that are not correlated to equity markets can deliver consistent returns with very low risk of loss; other strategies may be as volatile (or more) so than managed funds.

In the Australian landscape, the most popular single strategies are global long/short equity and Australia long/short equity.

Assets (*noun*);

all tangible and intangible property that can be converted into cash

History of Hedge Funds

THE GENESIS OF HEDGE FUNDS FUND LAY IN AN OBSCURE LAW PASSED BY THE US CONGRESS IN 1940, CALLED THE INVESTMENT COMPANY ACT, WHICH SOUGHT TO REGULATE MUTUAL FUNDS, PARTICULARLY TO PROTECT SMALL INVESTORS AGAINST UNSCRUPULOUS MUTUAL FUND MANAGERS.

However, Congress also decided that wealthy investors – which it defined as anyone with more than a million dollars of investable assets – presumably didn't need such protection. If a fund manager was discreet, dealt with fewer than 100 such investors and didn't advertise, it would be largely exempt from the regulations.

The vehicle generally considered to be the first hedge fund was started by Alfred Winslow Jones, an Australian journalist living in New York, in 1949, to take advantage of this loophole. Jones called his fund a 'hedge' fund because it would not only buy stocks it liked, it would short-sell stocks that it felt were over-valued.

The idea was to 'hedge' out the exposure to the sharemarket by buying and 'shorting' (short-selling: selling a stock without owning it) an equal number of stocks: therefore having a portfolio that should have performed well or badly depending on the stock-picking, not on where the market went.

In this way, he reasoned, the fund would be less vulnerable to big market moves than traditional funds.

Jones launched his first hedge fund with US$100,000. The fund built around the concept of maximising exposure to individual stocks and minimising exposure to market risk.

Jones set the standard for hedge fund fees, setting a 1 per cent annual fee and 20 per cent of the profits generated. Most funds follow that template to this day, although the typical annual management fee is 2 per cent.

His funds flew largely under the radar until 1966, when an article in Fortune claimed that Jones' funds had returns substantially greater than the leading mutual funds.

By 1968, there were 140 hedge funds operating in the US. But the bear markets that prevailed in the 1970s saw many funds suffer losses and capital withdrawals, to the point that by 1985, there were only about 37 hedge funds in the US.

However, revival was just around the corner. The 1990s saw the heyday of the billion-dollar 'macro' funds that traded in the world's financial markets. Funds such as George Soros's Quantum Fund, Julian Robertson's Tiger Fund and Long-Term Capital Management (LTCM) became household names, as their traders and portfolio managers roamed the world's financial markets looking for pricing anomalies which they could exploit, sometimes using derivatives to leverage their positions.

The macro funds' heyday came in 1992, when a group of hedge funds including George Soros' Quantum Fund forced the Bank of England to "depeg" sterling from the Exchange Rate Mechanism of the European Monetary System. The Quantum Fund alone was believed to have made billions of dollars for its investors on this trade alone.

The hedge fund industry has grown dramatically this decade both in terms of the number of hedge funds and the amount invested in hedge funds. According to data released by Chicago-based Hedge Fund Research, Inc. the number of hedge funds grew from around fifty in the '1980s to more than nine thousand today. In 2007, the industry saw inflows of more than $60 billion in the first quarter, bringing total assets under management to $1.6 trillion. Boutiques hedge funds have been a consistent component of the growth of the industry as the ability to outsource middle and back office functions makes it feasible for the proprietors of the business to concentrate on the portfolios and business aspects.

Today, despite the sub-prime turmoil emanating from the USA, the hedge fund industry enjoyed a strong 2007. The Hedge Fund Research, Inc. (HFRI) Weighted Composite Index of all hedge funds in its database, returned 10.2 per cent for the year. Another database measuring hedge fund performance, the Hennessee Hedge Fund Index, advanced 11.6 per cent. This compares to the Dow Jones Industrial Average, which increased by 6.4 per cent, the broader S&P 500 Index, which rose by 3.6 per cent, and the Nasdaq Composite Index, which gained 9.8 per cent, and the S&P/ASX 200 index of the Australian sharemarket, which added 11.8 per cent.

Today the hedge fund industry has some of the most talented people in the financial industry among its ranks.

Regulation of Hedge Funds

Much has been made of the lack of regulation and transparency in the alternative investment industry but regulatory agencies are increasingly focused on this space and much progress has been made with respect to ethical standards, sound practices and risk management.

Regulation of fund managers and registered schemes in Australia is extensive comparable to other jurisdictions and seeks to offer investors sound protection. A reasonable percentage of hedge fund investments available to Australian investors are provided via a "feeder" fund type arrangement where the Australian fund gains its access via an investment in another underlying fund that is often domiciled and regulated in an overseas jurisdiction. This is particularly true for global fund of fund products which are arguably the most common (by number) hedge fund products offered into Australia. This can result in a large portion of the fund assets being subject to lesser regulation than Australian standards or being subject to other comparable regimes such as the US and UK. This is mitigated by the fact that the Australian hedge fund managers are legally responsible for ensuring that the investments of the fund are adequately monitored and protected and that appropriate risk management arrangements are implemented and maintained.

Australian Regulation

In Australia, hedge fund managers and hedge funds are regulated in the same manner as other asset managers and managed funds. This regulatory regime applies to both the managers and funds that are domiciled in Australia and funds that are domiciled outside of Australia and offered into Australia. The Australian regulation broadly speaking applies at three levels: manager licensing, fund registration and investor disclosure.

Licensing

The hedge fund manager must hold an Australian financial services licence issued by the Australian Securities and Investments Commission (ASIC) or rely on an exemption. Common exemptions apply where the manager is appointed as an authorised representative of another licensee or where the manager is authorised in a foreign jurisdiction (e.g. Securities and Exchange Commission (US) and Financial Services Authority (UK). Offshore hedge fund managers relying on the latter exemption will in operating in Australia be primarily governed by the regulations in the country in which they are authorised to be an investment manager.

Registration of the fund

Unless the fund is offered to only wholesale clients (e.g. persons who invest more than A$500,000, high net worth investors and institutional investors) it must generally speaking be registered as a managed investment scheme. Funds structured as companies or that are offered to only wholesale clients are not required to be registered and therefore are not subject to the same regulatory oversight as funds that accept monies from retail investors.

Disclosure

In Australia, hedge funds structured as trusts (the most common structure in Australia) that offer interests to retail clients must do so via a Product Disclosure Statement (PDS) which includes content prescribed by the law and ASIC. Hedge funds structured as companies that offer interest to retail clients must do so via a prospectus which also has prescribed content and has to be registered with ASIC. A prescribed disclosure document is not required to be provided to wholesale clients however they commonly invest via an Information Memorandum/Private Placement Memorandum.

US Regulation

To date, US hedge funds have not been governed by the same regulations as other US managed investments or mutual funds. In the US, where the majority of hedge fund managers are domiciled, hedge funds are not supervised like SEC registered mutual funds. Although hedge funds are not currently required to register with the Securities and Exchange Commission (SEC), many hedge fund managers choose to do so.

US hedge fund managers generally structure their investment vehicles as a "private offering" to sophisticated investors such as high net worth individual investors, banks, insurance companies and pension funds. Often times the private offering is a Limited Liability Partnership, with the hedge fund manager acting as the General Partner and investors coming in as Limited Partners.

Hedge fund managers are not exempt from other forms of oversight in the US. Any manager that trades on the New York Stock Exchange or any of the US Futures Exchanges is still bound by NYSE and CFTC (Commodity Futures Trading Commission) rules and regulations. In addition, as any other manager of a collective investment scheme for US investors, a hedge fund manager is subject to state and federal laws on fraud, misappropriation of funds, and racketeering. The manager must also abide by the same fiduciary duties to their investors as other adviser in a collective investment scheme..

In the US, the Investment Company Act severely restricts a mutual fund's ability to leverage or borrow against the value of securities in its portfolio. The SEC requires that funds engaging in certain investment techniques, including the use of options, futures, forward contracts and short selling, cover their positions. The same rules do not apply to hedge funds who are generally more active users of these techniques.

Recent Developments

Liquidity

In response to recent issues in Australia, ASIC has focused on withdrawal rights and liquidity of hedge funds. The local regulator has examined hedge fund disclosure documents and constitutions in order to produce a Consultation paper that will propose minimum standards for managing withdrawal and liquidity based on a concept of "reasonableness". The implications for hedge funds are that there will be greater scrutiny of the description and advertising of investment products, use of derivatives and disclosure of risks.

Valuation

Valuation and day-to-day NAV calculation is increasingly outsourced to an administrator. The net asset value (NAV) of a fund is the basis for ascertaining the prices applicable to investor subscriptions or redemptions. It should be noted that there are certain limitations of NAV information, and it is important that investors understand that there are some strategies where hedge funds hold illiquid investments for which a transparent, objective price does not exist. In these instances "fair value" pricing requires an element of commercial subjectivity, and even then may not have universal application to all portfolio and investment strategy types. However, "hard to value" instruments are a minority, with one recent AIMA survey indicating that only 14% of the aggregate value of the funds managed by respondents fit into this category.

Disclosure

One of the most important aspects of reporting relates to disclosures: allowing investors to properly evaluate the risks inherent in any investment under consideration. AIMA Australia has recently released guidelines relating to risk disclosure for hedge funds. The guidelines relate to disclosures made within fund offering documents and seek to ensure investors make informed decisions when acquiring interests in funds. While these guidelines are voluntary, AIMA Australia strongly encourages members to take them into account in their disclosure material.

Return attributes of Hedge Funds

Diversification Benefits of Hedge Funds

One of the main attractions of hedge funds is the low to moderate correlation they typically have with traditional asset classes such as Australian & international equities, property and fixed interest. As an example, the table below shows the correlation of a Credit Suisse Tremont Hedge Fund Index with the other major asset classes. The Credit Suisse Tremont Hedge Fund index represents a combination of the majority of hedge fund strategies and is reflective of a fund of hedge funds product. As can be seen from the table, the correlation with most other major asset classes is low and in some cases negative which means that the addition of a fund of hedge funds exposure into a diversified portfolio will provide additional diversification benefits and reduce overall portfolio risk without reducing returns. (Refer Diagram 1).

	Credit Suisse/ Tremont Hedge Fund Index*	MSCI World Index	JP Morgan Global Gov't Bond Global Index	S&P 500 Total Return	Lehman Aggregate Bond Index	Dow Jones STOXX 50	Citigroup Euro Big	Topix
MSCI World Index	0.56							
JP Morgan Global Gov't Bond Global Index	0.07	-0.03						
S&P 500 Total Return	0.43	0.96	-0.12					
Lehman Aggregate Bond Index	-0.01	-0.24	0.65	-0.26				
Dow Jones STOXX 50	0.58	0.90	0.06	0.81	-0.21			
Citigroup Euro Big	0.12	-0.01	0.91	-0.14	0.51	0.16		
Topix	0.41	0.55	0.14	0.44	-0.03	0.38	0.02	
JP Morgan Gov't Bond Japan	-0.02	0.09	0.73	0.06	0.35	0.03	0.45	0.38

Diagram 1

Source: Credit Suisse Tremont Index LLC, Bloomberg

Balance (*verb*);

to achieve or maintain a position of steadiness

Hedge Fund Strategy Returns

As detailed in chapter 2, there are many different types of hedge funds investment strategies and processes. Each of these strategies provide different risk and return profiles as illustrated by the yearly return table (Refer Diagram 2)

The table shows the yearly returns of the different hedge fund strategies since 1994. As with all investment strategies, the table demonstrates that returns vary on a yearly basis and no one hedge fund investment strategy will provide the best returns year after year. This provides a sound basis for combining different hedge fund strategies in a portfolio for risk and return diversification benefits

Ranking	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1	Managed Futures 21%	Long/Short Equity 47%	Convertible Arbitrage 26%	Global Macro 18%	Managed Futures 18%	Emerging Markets 29%	Event Driven 14%	Emerging Markets 17%	Emerging Markets 20%	Emerging Markets 20%
2	Long/Short Equity 17%	Emerging Markets 45%	Dedicated Short 16%	Convertible Arbitrage 15%	Dedicated Short 18%	Event Driven 20%	Emerging Markets 12%	Dedicated Short 17%	Event Driven 16%	Global Macro 17%
3	Equity Market Neutral 13%	Event Driven 22%	Equity Market Neutral 15%	Event Driven 11%	Global Macro 15%	Global Macro 18%	Long/Short Equity 12%	Long/Short Equity 10%	Mulit-Strategy 15%	Long/Short Equity 14%
4	Mulit-Strategy 8%	Convertible Arbitrage 16%	Global Macro 12%	Equity Market Neutral 9%	Equity Market Neutral 7%	Long/Short Equity 17%	Global Macro 8%	Global Macro 9%	Long/Short Equity 14%	Event Driven 13%
5	Global Macro -4%	Equity Market Neutral 15%	Mulit-Strategy 11%	Fixed Income Arbitrage 8%	Emerging Markets 7%	Mulit-Strategy 15%	Mulit-Strategy 8%	Event Driven 9%	Convertible Arbitrage 14%	Mulit-Strategy 10%
6	Convertible Arbitrage -4%	Fixed Income Arbitrage 12%	Event Driven 7%	Emerging Markets 6%	Mulit-Strategy 6%	Managed Futures 14%	Fixed Income Arbitrage 7%	Mulit-Strategy 8%	Global Macro 14%	Equity Market Neutral 9%
7	Event Driven -5%	Mulit-Strategy 9%	Fixed Income Arbitrage 6%	Mulit-Strategy 6%	Fixed Income Arbitrage 6%	Convertible Arbitrage 13%	Equity Market Neutral 7%	Equity Market Neutral 6%	Equity Market Neutral 11%	Dedicated Short 6%
8	Dedicated Short -6%	Global Macro 6%	Managed Futures 4%	Managed Futures 2%	Convertible Arbitrage 4%	Fixed Income Arbitrage 8%	Managed Futures 6%	Fixed Income Arbitrage 1%	Fixed Income Arbitrage 9%	Managed Futures 6%
9	Fixed Income Arbitrage -8%	Managed Futures -5%	Long/Short Equity 2%	Dedicated Short -4%	Event Driven 0%	Equity Market Neutral 7%	Convertible Arbitrage 2%	Managed Futures 21%	Managed Futures 21%	Convertible Arbitrage 5%
10	Emerging Markets -38%	Dedicated Short -14%	Emerging Markets -6%	Long/Short Equity -4%	Long/Short Equity -2%	Dedicated Short -33%	Dedicated Short -8%	Convertible Arbitrage -3%	Dedicated Short -7%	Fixed Income Arbitrage 4%

Diagram 2 Yearly Return Table

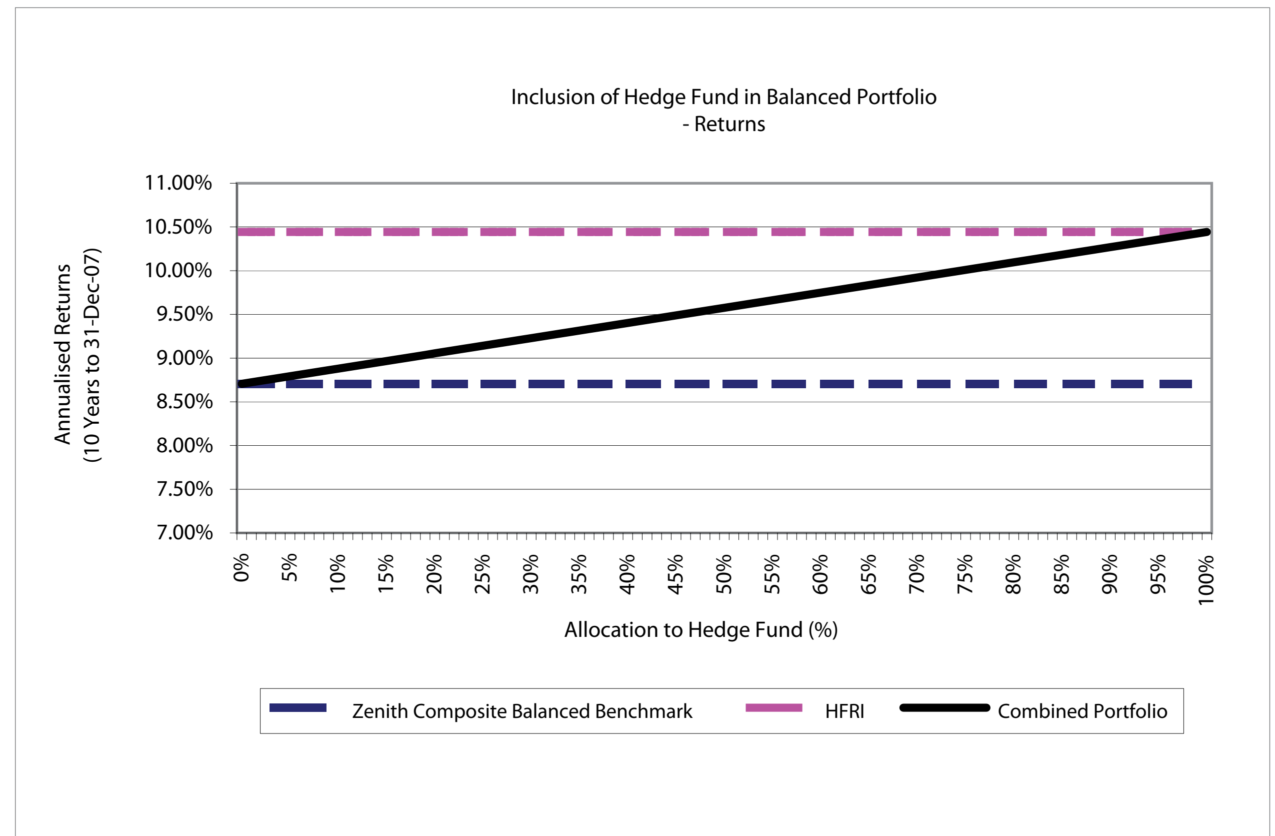
Source: Credit Suisse Tremont Index LLC

Allocation to Hedge Funds in a Diversified Portfolio

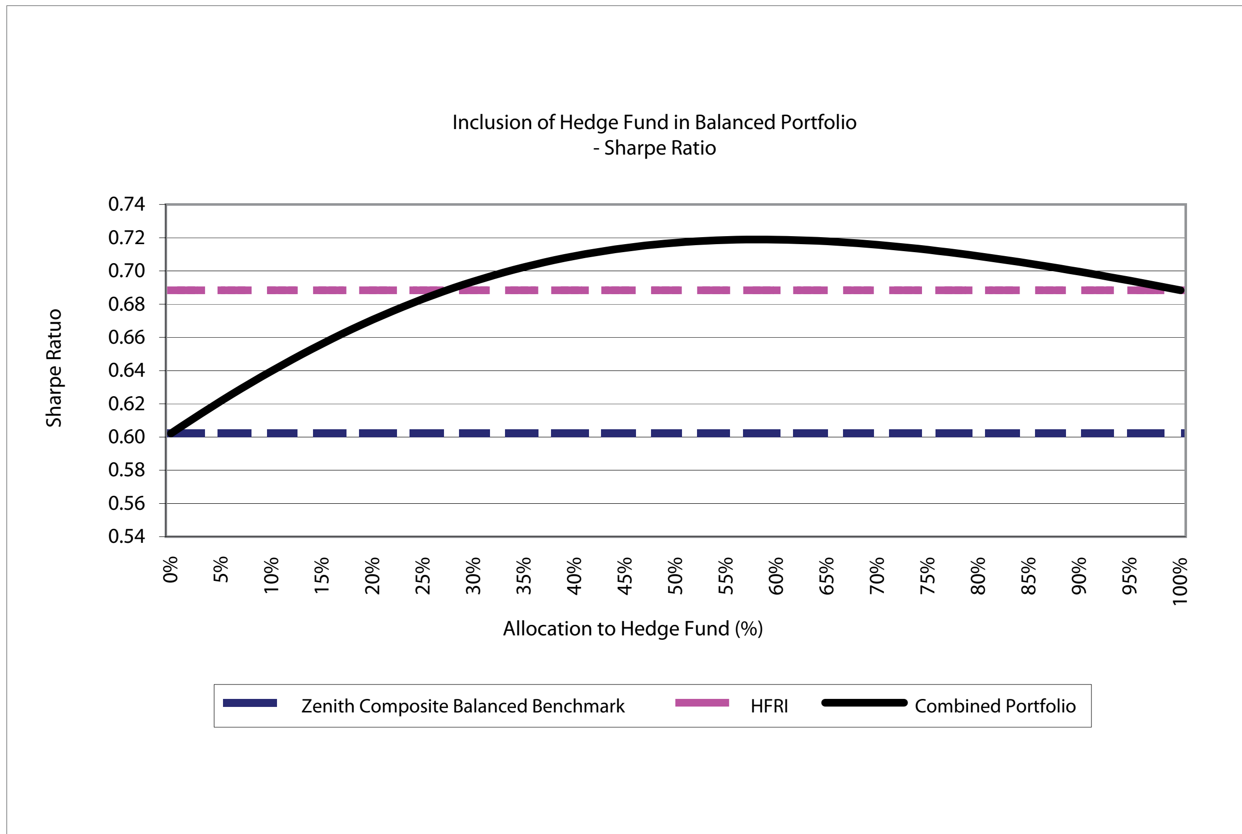
The decision of how much to allocate to hedge funds within a diversified portfolio is an often debated issue within investment circles. While it may be difficult for the average private investor to include multiple single strategy hedge funds within their portfolio, the inclusion of a fund of hedge funds into a portfolio provides access to a wide range of hedge fund strategies within the one investment. As discussed in point 7.1 above, the low correlation of the typical funds of hedge funds with traditional asset classes, means that by adding a funds of hedge funds to a diversified portfolio is likely to enhance the risk / return profile of the portfolio. Finally, a fund of hedge funds offering typically conducts a lot of due diligence into underlying hedge funds that the end investor may be happy to have done on his behalf. *Fund of funds can make a useful proxy returns for hedge funds, but it should be noted that individual hedge fund strategies will likely exhibit their own performance characteristics.*

The following chart illustrates the benefits of including a fund of hedge funds in a balanced portfolio. This analysis utilises the HFRI (Hedge Funds Research Inc.) Fund Weighted Composite Index as the proxy for the fund of hedge funds and the Zenith Composite Balanced Benchmark Index as the proxy for the balanced portfolio. The Zenith Composite Balanced Benchmark Index represents a portfolio consisting of 30% Australian equities, 10% Australian listed property, 20% international equities, 20% Australian fixed interest, 10% international fixed interest and 10% cash.

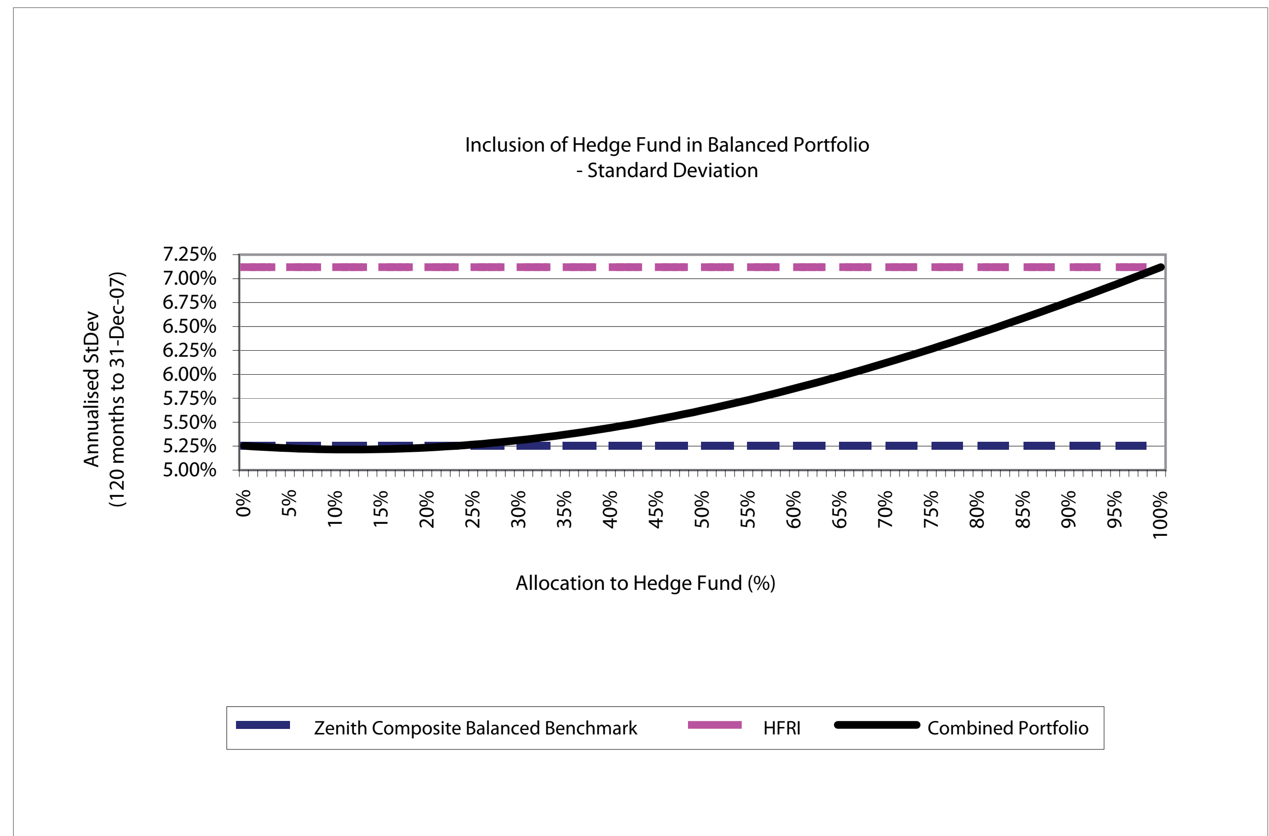
As the HFRI Fund Weighted Composite Index has outperformed the balanced portfolio over on a per annum basis over the 10 year period measured (January 1998 to December 2007), the chart shows that adding an allocation to the hedge fund in the portfolio clearly enhances the portfolio's return.



The following chart demonstrates that the addition of an allocation to the hedge fund within the portfolio up to approximately a 30% allocation does not add to the volatility as measured by standard deviation.



The final chart further endorses the benefits of including an allocation to hedge funds within the portfolio. This chart provides a measure of the portfolio's risk / return characteristics as measured by the Sharpe Ratio. The Sharpe ratio measures the additional return generated by the portfolio for the additional level of risk (standard deviation) above that of the risk free interest rate. On this measure, the Sharpe ratio is maximised with an allocation to the hedge fund at approximately 50%. While this large allocation may be impractical and the results of this analysis would vary over differing time frames, it provides a compelling case for the inclusion of hedge funds within portfolios.



Performance & Risk Measures

The performance and risk measures commonly used and published by hedge fund managers, while not unique, are more extensive that that used by "mainstream" fund managers. The more extensive measurement of performance and risk by hedge fund managers has had a positive influence on the broader managed funds industry, with more mainstream fund managers now supplying greater analysis of their funds performance and risk.

Performance Measures

~ ***Cumulative Return***
Cumulative return simply measures the total return of the fund since its inception. The return is a percentage return that is not annualised.

~ ***Annualised Return***
Annualised return expresses the return of the fund on an annual or per annum basis.

~ ***Best Month Return***
The best month return measures the highest monthly return over the history of the fund.

~ ***Worst Month***
The worst month return measures the lowest monthly return over the history of the fund.

~ ***Maximum Drawdown or peak to trough***
The percentage negative return that a fund incurs from a peak in its net asset value to its lowest net asset value thereafter. The maximum drawdown over period of time is a useful statistic in measuring the absolute risk of a fund.

~ ***Time to recovery (also change in glossary at back)***
The number of months that a fund takes to recover to its peak net asset value following a Drawdown.

Consistency Measures

- ***Average Monthly Gain***
  The average of the profitable months of the fund.
- ***Average Monthly Loss***
  The average of the negative months of the fund.
- ***Percent Positive Months***
  The number of monthly returns (displayed as a percentage of the total number of months in the period) that were positive over a given period.
- ***Percent Negative Months***
  The number of monthly returns (displayed as a percentage of the total number of months in the period) that were negative over a given period.
- ***Longest Losing Streak***
  The longest number of consecutive months of negative performance.
- ***Risk Measures***
- ***Annualised Standard Deviation***
  Standard deviation is a statistical measurement that describes historical volatility. In mathematical terms, Standard Deviation is a measure of the dispersion of a set of data from its mean. Annualised Standard Deviation expresses the standard deviation on an annual or per annum basis.
- ***Beta***
  Beta measures the risk of a particular investment relative to a market or index. It describes the sensitivity of the investment to broad market movements. For example, in equities, the stock market has a beta of 1. An investment with a beta of 0.5 will tend to participate in broad market moves, but only half as much as the overall market.
- ***Sharpe Ratio***
  The Sharpe Ration is a measure of how well a fund is rewarded for the risk it incurs. The higher the ratio, the better the return per unit of risk taken. It is calculated by subtracting the risk-free rate from the fund's annualized average return, and dividing the result by the fund's annualized standard deviation.
- ***Downside Deviation***
  The downside deviation is similar to the standard deviation but considers only returns that fall below a defined Minimum Acceptable Return (MAR) rather then the arithmetic mean. For example, if the MAR is determined to be 10%, the downside deviation would measure the variation of each period that falls below 10%.
- ***Sortino Ratio***
  The Sortino Ratio is a risk-adjusted measure of return similar to the Sharpe Ratio. It is calculated in the same way but replaces the annualised standard deviation in the denominator with the annualised downside deviation.

Fee Structures

IN MANY WAYS HEDGE FUNDS HAVE REVOLUTIONISED FEE STRUCTURES RIGHT ACROSS THE MANAGED FUND INDUSTRY VIA THE USE OF PERFORMANCE FEES, A PRACTICE THAT HAS NOW BECOME MORE COMMON IN THE "MAINSTREAM" MANAGED FUND INDUSTRY.

From this perspective, hedge funds fee structures generally include two components, management fees and performance fees. These components are described below.

Management Fees

Like most managed investments, hedge fund managers charge investors a management fee for their services in managing the assets of the Fund. This fee is usually a fixed percentage fee charged on the current market value of the assets of the Fund and therefore in dollar terms, will vary as a function of the underlying value of the Fund's assets. The Management Fee is paid regardless of the performance of the fund. In practice the management fee is reflected in the fund's unit price and therefore would be calculated on the same frequency as the unit price calculation. An example of how the management fee calculation is reflected in the unit price is as follows:

Net Asset Value of Fund:	$50,000,000
Number of Units on Issue:	25,000,000
Unit Price (Before Management Fee):	$2.00 ($50,000,000 / 25,000,000)
Unit Price (after Management Fee):	$1.96 ($2.00 x 2.0%)

The frequency of valuation is where many hedge funds differ from that of managed funds in the mainstream asset classes partly due to the less liquid nature of the underlying investments they invest in. This means that the frequency of unit price valuations may be less frequent with monthly valuations being common for many hedge funds.

Performance Fees

The use of performance fees is commonplace within hedge funds. In basic terms, a performance fee is a fee that is charged by the manager of a hedge fund if the returns of the fund are above the required hurdle rate or performance benchmark. There are a number of different components to performance fees which in practice, results in many different performance fee structures. The different components of performance fee structures include:

Performance benchmark (Hurdle Rate)

A performance fee requires the use of a performance benchmark or hurdle rate of return above which the Fund's returns must be prior to the performance fee being paid. The selection of performance benchmarks varies widely and can range from:

- ~ Positive Returns (returns above zero, i.e. no hurdle rate);
- ~ The bank bill index (UBS Bank Bill Index);
- ~ The official cash rate (E.g. Reserve Bank of Australia cash rate);
- ~ A market benchmark (E.g. S&P/ASX200 Accumulation Index);
- ~ A market benchmark plus a margin (E.g. S&P/ASX200 Accumulation Index plus 2.0%);
- ~ A specific absolute return (E.g. Above 10%)

These performance benchmarks or hurdle rates are examples of those used by hedge fund managers to measure the returns of the fund against to assess whether the manager has met the criteria to be paid a performance fee. As an example, a fixed interest based hedge fund manager using the UBS Bank Bill Index as their performance benchmark will be entitled to be paid a performance fee if the return of the Fund is higher than the return over the specified period.

An example of a performance fee structure is provided below:

Performance Fee:	20% of returns above the benchmark subject to high water mark
Benchmark:	RBA Cash Rate (Assume 6.75%)
Performance Fee Accrued:	Daily
Performance Fee Paid:	Quarterly
Assume the investor invests $50,000 into the fund on 1 October and units are issued based on the unit price of $1.00 per unit on the previous day (30 September). Assume the High Water Mark is also $1.00 per unit. The unit price then increases to $1.035 (before deduction of the Performance Fee but after all other fund fees and expenses) at 31 December (a period of 92 days). This results in the value of the investment appreciating to $51,250. ***The Performance Fee is then calculated in the following way:***	
Benchmark Value per unit:	= $1.00 + 92 x (6.75% / 365) x $1.00 = $1.017014
Fund Outperformance per unit:	= ($1.03500 - $1.017014) = $0.017986
Performance Fee per unit:	= $0.017986 x 20% = $0.003597
Total Performance Fee Payable:	= $0.003597 x 50,000 = $179.86

Measurement Period

The measurement period for the calculation of performance fees also varies quite widely in Australian hedge fund products, with periods ranging from as short as 1 month to as long as 3 years being used. The most common measurement period is 12 months however according the Zenith Investment Partners there has been a trend to shorter term periods for those managers seeking to generate more performance fees.

Reset Periods

Reset periods are an occasional facet of performance fee structures. Reset periods are designed to "wipe the slate clean" in terms of historical performance thereby resulting in the performance fee period and calculation starting again. Reset periods are not as common as High Water Mark structures (see below) and can significantly benefit the manager by removing past underperformance that would otherwise need to be recouped prior to a performance fee being paid.

High Water Mark

High water marks are a common feature of performance fee structures and attempt to ensure that all investors in a fund are treated equitably in relation to the charging of performance fees. A high water mark is a point at which a fund must achieve, in addition to outperforming its performance benchmark, to qualify for payment of a performance fee. A high water mark is usually applied to the fund's unit price NAV. A high water mark means that the fund unit price must be above its previous high and beat its performance benchmark prior to a performance fee being paid to the manager. The application of a high water mark is a positive for investors as it means that any underperformance following the payment of a previous performance fee must first be recouped before a performance fee can be paid again.

Risk (*noun*);
probability of an event occuring **x** impact of event occuring

Hedge Funds in Australia

Hedge Fund Investment

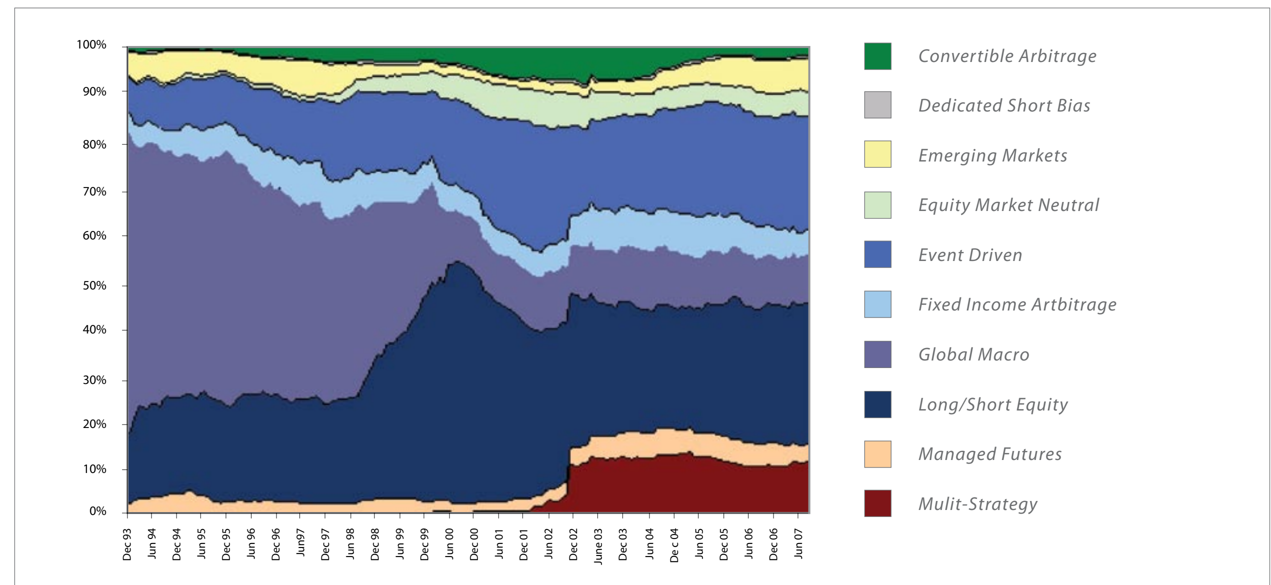
There is no doubting the fact that Australian investors have discovered hedge funds. As was the case with the growth of hedge funds in the US, this wave of investment has been led by high-net-worth and retail investor money. According to hedge fund research house LCA Group, 65 per cent of the assets of the Australian hedge fund industry at 30 June 2006 were invested by high-net-worth and retail investor money, with pension-fund money and offshore institutional investors accounting for 20 per cent.

According to Axiss Australia, at 30 June 2006, the ten largest superannuation fund allocations to hedge funds and fund of hedge funds accounted for almost $7 billion, led by (in order) ARIA, REST, UniSuper, AustralianSuper, Health Super, Telstra Super Scheme, QLGSS, Qantas Super Plan, HESTA and HOSTPLUS.

The preferred institutional vehicle has been the diversified fund of hedge funds. An AIMA survey of superannuation fund trustees in 2006 and again in 2008 showed that around 50 per cent of trustees have allocated money to fund of hedge funds, with about 27 per cent having allocated money to multi-strategy funds and the same proportion reporting having used single-strategy managers.

Institutional investors have used fund of funds to gain familiarity with the investment class by using a diversified portfolio. This may be considered a more risk-averse way to enter the hedge fund market: the investor gains the benefit of a broad range of managers and strategies, while employing a manager to monitor the underlying managers and manage the underlying single-manager risk associated with the portfolio. Many investors have found that they have become comfortable in this way using hedge funds, and have subsequently chosen a particular manager or strategy.

The below diagram, although not specific to Australian hedge fund investing provides an illustration of the changing investment allocation to the various hedge fund strategies since the early 1990's. The changing allocation to the different strategies has evolved as a result of new strategies emerging and investor preferences changing through differing market cycles.



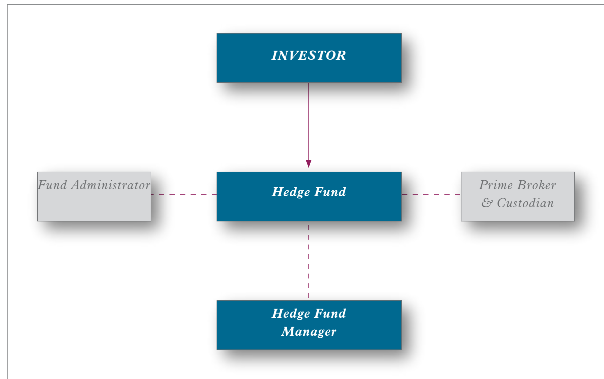
Source: Credit Suisse Tremont LLC

Income & Capital Gains Tax Implications

The active investment process of most hedge fund strategies tends to result in a high level of turnover of the underlying securities within a hedge fund manager's portfolio. This results in the rapid realisation of capital gains and losses on individual security positions. In Australia, unless a security has been held for greater than twelve months, any realised capital gains are treated as income from a taxation perspective. With the majority of unlisted managed funds in Australia being unit trusts that must distribute all income within the financial year in which it is earned, realised gains on security's held for less than twelve months will be treated as income in the hands of investors.

These characteristics result in the majority of hedge fund returns being in the form of taxable income rather than capital growth for Australian investors. This can impact materially on the after tax returns of investors, particularly those on high marginal tax rates who will be liable for higher levels of tax on the income distributions paid by the fund.

Hedge Fund Structure



A typical hedge fund structure is illustrated.

THE ROLES OF EACH OF THESE CONTRIBUTORS TO THE MANAGEMENT OF THE HEDGE FUND ARE SUMMARISED BELOW:

Role of the Hedge Fund Manager

The Hedge Fund Manager is responsible for the genesis, implementation and execution of the investment strategy of the fund which involves buying and selling securities, managing the overall portfolio and risk management. As such, the Manager is entirely responsible for the investment return produced by the fund for the investors.

Role of Prime Broker

The prime broker is a necessary function for most hedge fund managers as it provides several key services to assist with the management of their portfolios. These include: Multi-asset class, multi-currency custodial, settlement and clearing service, Margin Financing, Stock Borrow/ Loan and Synthetic (Swap) products, Business Consulting Services and Capital Introduction Services

The prime broker facilitates custodial servicing and reporting for a fund manager's assets, integrating reports within the fund managers existing architecture. The prime broker also acts as a source of margin financing, for the hedge fund. Hedge funds can use leverage as they deem necessary and in line with the availability of financing made available to them (typically in line with their prime broker's credit counterparty review). The prime broker can then provide financing via collateralised lending. Collateralised financing requires the prime broker to hold stock as collateral plus a margin requirement, with the margin requirement dependent on the perceived quality of the counterparty and collateral (determined by the prime broker) and the concentration and liquidity of the portfolio. The prime broker also facilitates securities lending; used when the hedge fund intends to hold short sold positions in its portfolio. When securities are sold into the market (i.e. short sold), delivery can be made by borrowing the stock from a stock lender (which in this case is the prime broker). The lender retains all the benefits of ownership except voting rights and retains the right to recall the security at any time.

Prime brokers will also provide business consulting services; offering best practice commentary on fund structuring, market practice, jurisdictional developments, tax, third party vendors and resourcing. Furthermore, prime brokers provide a capital introduction facility, through which they facilitate the introduction of qualified investors to hedge fund managers. This is done on a bespoke and ongoing basis and in tandem with frequently organised capital introduction events and educational forums.

Role of the Fund Administrator

The role of the Fund administrator broadly covers the following activities:

- Transfer agency and Registrar responsibilities, such as subscriptions, redemptions, transfer requests and maintenance of share registry.
- Calculation, or striking, of a funds net asset value (NAV), including the calculation and application of all fees.
- Financial expertise and functions: Reporting and provision of financial statements, liaising across the audit confirmation process, provision of compliance and regulatory duties and support.
- Trade reconciliation and settlement processing in tandem with the fund manager(s) and Prime Broker(s).

Role of the Custodian

Typically, the fund manager's Prime Broker would act as Custodian. However, in some regulatory jurisdictions there is a requirement to appoint a Custodian in addition to a Prime Broker. In these regulatory environments the Custodian usually appoints the Prime Broker as sub-Custodian, to enact in the typically provided Prime Brokerage custodial functions.

Furthermore, a Prime Broker may appoint sub-custodians, subject to internal review and due diligence processes, where required by specific regulatory, operational or jurisdictional requirements.

A fund may appoint a third party custodian should they be required to take custody of securities that their Prime Broker cannot custody, or in some instances where a master-feeder structures exist, a separate Custodian may service assets at the feeder level.

Role of the Auditor

Funds often provide indicative (unaudited) reports on a regular basis to their share and unit holders. However for regulatory and practical reasons (most third parties will not work with, nor invest in, an un-audited entity) funds need to engage an Auditor to provide fully audited reports. The Auditor will ensure that the fund remains compliant with any and all accounting guidelines and regulations as well as the verification of financial statements.

Role of the Lawyer

The lawyer will typically assist the manager with the process of AFSL licencing and contractual aspects of running the business. For example, the service providers discussed in this section will usually have contracts in place with the hedge fund manager.

The lawyer may advise the fund in regard to any tax regulations and legal matters, as well as ensuring the fund remains compliant with the regulatory environment of any jurisdiction in, or through, which the fund conducts or solicits business.

The Lawyer will aid in the preparation, drafting and review of all appropriate fund documents, including:

- Private Placement Memorandum(s)
- Information Memorandum(s)
- Product Disclosure Statement(s)
- Subscription/ Redemption/ Application Document(s)
- Third Party and Service Provider Agreements

Hedge Fund Risks

WHILE HEDGE FUNDS GENERALLY FACE THE SAME IF NOT SIMILAR RISKS TO OTHER TYPES OF FUNDS, DEPENDING ON THE STRATEGY, THERE CAN BE ADDITIONAL RISKS INVOLVED WITH INVESTING IN HEDGE FUNDS. Some of these additional risks include:

Leverage Risk

A common characteristic of hedge funds is their use of leverage as part of their trading strategy. Although not all hedge funds use leverage, for many hedge fund strategies such as arbitrage strategies leverage is an important element as the alpha is relatively small and leverage may be used to amplify the profit. Investors should understand that leverage can also magnify losses.

In general, hedge fund managers can create leverage within their strategies through a variety of means, although the most common is through a borrowing facility established with a prime broker.

Liquidity Risk

Liquidity risk is common to all investors and fund managers who trade securities. However, due to the specialist skills and strategies used, hedge fund managers may operate in illiquid markets to a greater extent than other fund managers. This can be a significant risk for some hedge fund strategies particularly under adverse market conditions where liquidity can reduce significantly.

Counterparty Risk

Counterparties involved in the running of a hedge fund can include the prime broker who lends cash and or securities and the other side of any over the counter (OTC) derivative trade or credit default swaps (CDSs).

As many hedge funds invest or trade in OTC derivatives and financial instruments with investment banks, brokers and / or dealers, they are exposed to counterparty risk which is the risk that the other party to the transaction will not honour their obligations in relation to the security.

A particular counterparty risk is settlement risk, which refers to the failure to deliver the specified security or money by one of the parties to the transaction on the settlement day.

Pricing Risk

Given that many hedge fund managers have evolved from investment banks and / or broker proprietary trading desks, there are a number of strategies that invest in complex securities traded over-the-counter rather than on any open or public exchange. Pricing these types of securities can be difficult particularly in periods of high volatility. Investors should make themselves aware of the valuation policies of the hedge fund and administrator and how they are governed and regulated.

Short Selling Risk

Short selling is a very common aspect of running a hedge fund. A long position in a stock, can't lose more than the initial investment where the stock price declines to zero. By contrast, a short position can lose an unlimited amount as there is no theoretical limit on how high a stock can trade. As a result many short positions will be subject to a stop loss which is a pre-defined price above the initial sale price at which time the stock will be bought back and the loss thereby capped.

As some hedge fund strategies utilise short selling as a component of their investment strategy, short squeeze can become a risk. A short squeeze arises when short sellers must buy back their short positions at rising prices. Lenders can recall borrowed stock forcing a hedge fund manager to find borrowed stock elsewhere or buy stock in the market to deliver to lender.

Manager Operational Risk

In addition to the investment and financial risks, hedge funds management faces a number of operational risks. The Capital Market Company has shown that more hedge funds close due to operational issues than investment issues. The more common issues within operational risk are: misrepresentation of investments, misappropriation of investments, unauthorised trading and style breaches and inadequate resources to fund the strategy.

Strategy (*noun*);
a long term plan of action designed to achieve a particular goal

Hedge Fund Glossary

Active premium
A measure of the Investment's annualised return minus the Benchmark's annualised return.

Administrator
The entity that manages the back office work and individual accounts for the hedge fund.

Alpha
A numerical value indicating a manager's risk adjusted excess rate of return relative to a benchmark. Measures a manager's "value-added" in selecting individual securities, independent of the effect of overall market movements.

Annual rate of return
The compounded gain or loss in a fund's net asset value during a calendar year.

Arbitrage
To take advantage of disparate pricing between two similar instruments in the same or different markets.

Average annual return
Cumulative gains and losses dived by the number of years of an investment's life, with compounding taken into account. The measure is used to compare returns on investments for periods ranging from partial to multiple years.

Average monthly gain
the average of the profitable months of the fund.

Average monthly loss
The average of the negative months of the fund.

Average monthly return
The average of all the monthly performance numbers of the fund.

Average number of positions
The number of securities that a fund holds on any given day.

Average portfolio turnover
The percentage of the portfolio that is bought and sold each year.

Average rate of return
The mean average of a fund's returns over a given number of periods. It is calculated by dividing the sum of the rates of return over those periods by the number of periods.

Benchmark
A reference (security or index) against which a comparison and evaluation of performance of an investment portfolio can be made.

Benchmark for correlation values
The benchmark that the fund has chosen to run correlation values such as alpha, beta and R squared.

Benchmark for graphing
The benchmark that the fund has chosen to graph itself against.

Beta
Measurers the sensitivity of the manager's return to the market return. It is the extent to which the manager's returns have varied in line with movements in benchmark returns. A manager with a Beta greater than 1.0 is more volatile than the market, while a manager with a Beta less than 1.0 is less volatile than the market.

Bottom-up investment strategy
An approach that seeks to identify investments that will produce strong returns, before assessing the influence that economic factor will have on those assets.

Capacity of fund
An estimate of the size of the fund relative to the turnover of the markets it invests in, with the aim of assessing when assets under management become too large to effectively execute the fund's investment strategy.

Capital introduction (cap intro)
A service provided by prime brokers to introduce their hedge fund clients to potential (institutional) investors.

Closed fund
A hedge fund or open-end mutual fund that has at least temporarily stopped accepting capital from investors, usually due to rapid asset growth. Not to be confused with a closed-end fund.

CTA
Commodity Trading Advisor. CTA's generally trade commodity futures, options and foreign exchange and most are highly leveraged.

Compounded monthly return
The compounded monthly return is the return that if compounded over the life of the fund would lead to the total return of the fund. For example, if a fund has 10 months of return equaling 100% as a total compounded return. The compounded monthly return would be 7.18%.

Compounded annual return
The compounded annual return is simply the compounded monthly return multiplied by the 12th power.

Convertible arbitrage investment strategy
A conservative, market-neutral approach that aims to profit from pricing differences or inefficiencies between the values of convertible bonds and common stock issued by the same company. Managers of such funds generally purchase undervalued convertible bonds and short-sell the same issuers' stock. The approach typically involves a medium-term holding period and results in low volatility.

Correlation
A measure of how variables tend to move in relation to one another. Variables that rise or fall in parallel on average are positively correlated and those that move in opposite directions are negatively correlated. Correlations range from -1 to +1.

Credit Spread
The spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating. For example, the difference between yields on Treasuries and those on single A-rated industrial bonds.

Derivatives
Financial instruments whose value is derived from the value of an underlying security, asset or variable. Examples include options, warrants, futures, forwards and swaps.

Distressed securities investment strategy
Purchasing deeply discounted securities that were issued by troubled or bankrupts companies. Also, short-selling the stocks of those corporations. Such funds are usually able to achieve low correlations to the broader financial markets. The approach generally involves a medium- to long-term holding period.

Diversification
Minimising of non-systematic portfolio risk by investing assets in several securities and investment categories with low correlation between each other.

Downside Deviation
Similar to the loss standard deviation except the downside deviation considers only returns that fall below a defined Minimum Acceptable Return (MAR) rather then the arithmetic mean. For example, if the MAR is assumed to be 10%, the downside deviation would measure the variation of each period that falls below 10%. (The loss standard deviation, on the other hand, would take only losing periods, calculate an average return for the losing periods, and then measure the variation between each losing return and the losing return average).

Drawdown
The percentage loss that a fund incurs from its peak net asset value to its lowest value. The maximum drawdown over a significant period is sometimes employed as a means of measuring the risk of a vehicle. Usually expressed as a percentage decline in net asset value.

Event-driven investment strategy
An approach that seeks to anticipate certain events, such as mergers or corporate restructurings. Such funds, which include risk-arbitrage vehicles and entities that buy distressed securities, typically employ medium-term holding periods and experience moderate volatility.

FIF
An Australian tax that may be levied on Australian investors who invest in offshore vehicles.

Fixed income arbitrage investment strategy
An approach that aims to profit from pricing differentials or inefficiencies by purchasing a bond, annuity or preferred stock and simultaneously selling short a related security. Such funds are often highly leveraged.

Forward contract

Agreement between two parties to buy or sell an underlying asset at a specified future date for a specified price. Not traded on an exchange, but between specific parties.

Fund of funds

An investment partnership that invests in a series of other funds. A portfolio will typically diversify across a variety of investment mangers, investment strategies, and subcategories.

Fundamental analysis investment strategy

An approach that relies on valuing stocks by examining companies' financials and operations, including sales, earnings, growth potential, asset size and quality, indebtedness, management, products and competition.

Futures contract

Standardised, exchange traded contract for the future delivery or receipt of a specified amount of an asset at a specified price.

General partner

The individual or firm that organizes and manages a limited partnership, such as a hedge fund. The general partner assumes unlimited legal responsibility for the liabilities of a partnership.

Global macro investment strategy

An approach in which a fund manager seeks to anticipate broad trends in the worldwide economy. Based on those forecasts, the manager chooses investments from a wide variety of markets -- i.e. stocks, bonds, currencies & commodities. The approach typically involves a medium-term holding period and produces high volatility. Many of the largest hedge funds follow global-macro strategies. They are sometimes called "macro" or "global directional-investment" funds.

Gross exposure

The exposure level of the fund to the market at the present time - short positions are added to long positions to give a sense of total exposure.

Hedge Fund Access

Investors' ability to access hedge funds can be more restrictive than for other "mainstream" managed funds. Given the uniqueness of some hedge fund investment strategies and / or the illiquid nature of the assets some hedge funds invest in, funds under management capacity constraints are more common with hedge funds. That is, the volume of funds under management within some hedge fund strategies can be constrained by the nature of the investment strategy or the illiquidity of the underlying assets they invest in. This often results in hedge fund managers closing their hedge fund to new investment once they reach a level of funds under management above which their investment strategy and ability to buy and sell assets would be impacted.

Hedge Fund Indices & Historical Statistics

There are many hedge fund databases in the world and no one database captures all managers and funds. The reason for this is that hedge fund managers report their returns voluntarily and are not regulated or compelled to do so.

Hedging

Transactions entered into (usually opposite transactions within the same asset class or market) that protect against adverse price movements and limit the exposure to a specific risk.

High Watermark

The assurance that a fund only takes fees on profits once past losses are recovered. If an investment is made and subsequently falls in value, the fund will only take incentive fees if the investment grows above the initial level of investment made.

Highest 12 Month Return

The best or highest 12 month period of a fund's performance.

Highest Monthly Return

The best or highest monthly return of the fund.

Hurdle Rate

The minimum investment return a fund must exceed before a performance allocation / incentive fee can be taken.

Incentive Fee

The fee on new profits earned by the fund for the period. For example, if the initial investment was $1,000,000 and the fund returned 25% during the period (creating profits of $250,000) and the fund has an incentive fee of 20%, then the fund receives 20% of the $250,000 in profits, or $50,000.

Inception Date

The date that the fund began trading.

Leverage

The amount of leverage currently used by the fund as a percentage of the fund. For example, if the fund has $1,000,000 and borrows another $2,000,000, to bring the total dollars invested to $3,000,000, then the fund is said to be 3 times levered.

Limited partnership

Many hedge funds are structured as limited partnerships, which are business organizations managed by one or more general partners who are liable for the fund's debts and obligations. The investors in such a structure are limited partners who do not participate in day-to-day operations and are liable only to the extent of their investments.

Liquidity Gates

Related to lock-ups, liquidity gates are common practice within the hedge fund industry. The term refers to the practice of restricting the percentage of the fund that can be redeemed by investors in a specific period. For example, a hedge fund manager may restrict the total redemptions to a maximum of 10% of the fund each quarter. This practice is designed to control the level of redemptions so that forced selling of securities, particularly illiquid securities is kept to a manageable level and does not impact on either the performance or liquidity of the fund.

Lockup

Time period that initial investment cannot be redeemed from the fund.

Long biased investment strategy

An approach taken by fund managers who tend to consistently hold a net long market exposure.

Long Position

Holding a positive amount of an asset.

Long / short investment strategy

An approach in which fund managers buy stocks whose prices they expect will increase and takes short positions in securities (usually in the same sector) whose prices they believe will decline.

Longest Losing Streak

The number of consecutive months of negative performance.

Lowest Monthly Return

The lowest or worst monthly return of the fund.

Lowest 12 Month Return

The lowest or worst 12 month period of a fund's performance

Management Fee

The fees taken by the manager on the entire asset level of the investment. For example, if at the end of the period, the investment is valued at $1,000,000, and the management fee is 1%, then the fees would be $10,000.

Multi-strategy

An investment philosophy allocating investment capital to a variety of investment strategies, although the fund is run by one management company.

Market timer

A hedge-fund manager that selects asset allocations in anticipation of movements in the broad market.

Market neutral investment strategy

An approach that aims to preserve capital through any of several methods and under any market conditions.

Maximum Drawdown

The worst period of "peak to trough" performance for the fund, regardless of whether or not the drawdown consisted of consecutive months of negative performance.

Minimum Investment

The minimum initial investment for the fund.

Merger arbitrage investment strategy
Trading the stocks of companies that have announced acquisitions or are the targets of acquisitions. Seeks to exploit deviations of market prices from proposed exchange formulas.

Mortgage backed securities arbitrage investment strategy
An approach that seeks to exploit pricing differentials between various issues of mortgage-related bonds.

Net market exposure
The exposure level of the fund to the market at the present time. It is calculated by subtracting the short percentage from the long percentage. For example, if a fund is 100% long and 25% short, then the net market exposure is 75%.

Pairs Trading
Non-directional relative value investment strategy that seeks to identify two companies with similar characteristics whose equity securities are currently trading at a price relationship that is out of their historical trading range. Investment strategy will entail buying the undervalued security, while short-selling the overvalued security.

Peak to trough drawdown
The worst period of return of the fund.

Percent long
The percentage of the fund invested in long positions

Percent short
The percentage of the fund that is sold short.

Prime Broker
The entity with whom a hedge fund has its financing, stock borrowing, clearing, settlement and custody arrangements.

Profitable percentage
The percentage of monthly returns that the fund made money.

Options
A financial instrument that gives the holder the right but not the obligation to buy (call option) or sell (put option) the underlying asset up to (American option) or on (European option) a defined expiration date for a defined price.

OTC
Over-the-counter trading. Trading of products between two parties outside of exchanges.

Rate of return
The annual appreciation in the value of a fund or any other type of investment, stated as a percentage of the total amount invested. Sometimes referred to a simply the "return."

Redemptions
Frequency at which fund redemptions are accepted by the fund.

Redemption fee
A charge, intended to discourage withdrawals that a hedge-fund manager levies against investors when they cash in their shares in the fund before a specified date.

Relative-value investment strategy
A market-neutral investment strategy that seeks to identify investments whose values are attractive, compared to similar securities, when risk, liquidity and return are taken into account.

Risk
Risk in a portfolio sense refers to the variation or volatility of returns. It is generally measured by the standard deviation of the portfolio returns.

Risk free rate
The theoretical return on a risk-free investment, usually a U.S. security

Sharpe Ratio
An expression of the reward to risk ratio achieved with an historical rate of return. Calculated as the excess return to cash divided by volatility.

Short-biased investment strategy

An approach that relies on short sales. Such funds tend to hold larger short positions than long positions.

Short Position

The sale of a security that was borrowed and not previously owned in expectation of a fall in price.

Side-Letters

Side letters are designed to partly overcome the above issue of access to hedge funds. A side letter is a letter provided by a hedge fund manager to an investor stating that they will provide them with a specific allocation (usually a dollar amount) to their hedge fund within a specific period of time. That is, an investor may have $10 million to invest in a specific hedge fund today but wish to reserve a further $10 million of capacity in the fund in 6 months time.

Sortino Ratio

The Sortino Ratio is similar to the Sharpe Ratio, except that instead of using standard deviation as the denominator, it uses Downside Deviation. The Sortino Ratio was developed to differentiate between "good" and "bad" volatility in the Sharpe Ratio. If a fund is volatile to the upside (which is generally a good thing) its Sharpe ratio would still be low. To quote the Sortino web site: "A comparable downside risk ratio that has come to be called the Sortino ratio has for the numerator the difference between the return on the portfolio and the MAR. The denominator for the Sharpe ratio is standard deviation, and for the Sortino ratio it is downside deviation." The MAR is the Minimum Acceptable Return (We are using 5%).

Special situations investment strategy

An event-driven investment strategy in which the manager seeks to take advantage of unique corporate situations that provides the potential for investment gains.

Standard Deviation

Standard deviation is a statistical measure of the absolute variability of returns. It is the most commonly used measure of the volatility of returns or investment risk.

Rolling 12 Month Standard Deviation

Standard Deviation of Rolling 12 Month Returns.

Statistical arbitrage investment strategy

A market-neutral investment strategy that seeks to simultaneously profit and limit risk by exploiting pricing inefficiencies identified by mathematical models. The strategy often involves short-term bets that prices will trend toward their historical norms.

Stop loss

Hedge fund managers who take short positions will typically have a stop loss process, either rigorous or subjective, in order to limit the losses of a short position should it move too far against the portfolio.

Swap

An agreement between two parties to exchange cash flows over time according to a predetermined formula.

Top down investment strategy

An approach that seeks to assess the influence of various macro-and micro-economic factors before identifying individual investments.

Total Return Since Inception

The total Cumulative return for the fund since inception.

Volatility

A measure of the variability of investment returns, calculated as standard deviation.

Appendix

AIMA Australia Members - 2008

FUND MANAGERS

AGORA ASSET MANAGEMENT

Main Contact:	Pru Kirk
Email:	*pruk@agoraam.com.au*
Head office:	PO Box 18404, Collins Street East , Melbourne, VIC 8003
Country:	Australia
Telephone:	+61 3 9652 9700
Fax:	+61 3 9652 9720
Website:	
Area of Activity:	Hedge Fund Manager / Adviser

ALLARD PARTNERS AUSTRALIA PTY. LIMITED

Main Contact:	Joanne Braithwaite
Email:	*joanne@allardpartners.com*
Head office:	Level 12, Royal Exchange Building, 56 Pitt Street, Sydney, NSW 2000
Country:	Australia
Telephone:	+61 2 9247 7888
Fax:	+61 2 9251 2566
Website:	**www.allardpartners.com**
Area of Activity:	Hedge Fund Manager / Adviser

ARTESIAN CAPITAL MANAGEMENT

Main Contact:	Suzanne Smith
Email:	*suzanne@artesianinvest.com*
Head office:	Level 7, Alcaston House, 2 Collins Street, Melbourne, VIC 3000
Country:	Australia
Telephone:	+61 3 9667 0500
Fax:	+61 3 9654 4058
Website:	**www.artesianinvest.com**
Area of Activity:	Hedge Fund Manager / Adviser

ATTUNGA CAPITAL PTY LTD

Main Contact:	Ian Gibson
Email:	*ian@attungacapital.com.au*
Head office:	PO Box 1356, Wahroonga, Sydney, NSW 2076
Country:	Australia
Telephone:	+61 2 9397 7100
Fax:	+61 2 9262 1125
Website:	www.attungacapital.com.au
Area of Activity:	Hedge Fund Manager / Adviser

BASIS CAPITAL PTY LTD

Main Contact: Steve Howell
Email: *showell@basiscap.com.au*

Head office: PO Box N115, Grosvenor Place,
Sydney, NSW 1220
Country: Australia
Telephone: +61 2 8234 5500
Fax: +61 2 8234 5501
Website: **www.basiscap.com.au**
Area of Activity: Hedge Fund Manager / Adviser

BORONIA CAPITAL PTY LTD

Main Contact: Angus Grinham
Email: *angus.grinham@gmf.com.au*

Head office: PO Box 744,
Crows Nest, NSW 2065
Country: Australia
Telephone: +61 2 8238 9400
Fax: +61 2 8238 9499
Website: **www.gmf.com.au**
Area of Activity: Hedge Fund Manager / Adviser

COLONIAL FIRST STATE INVESTMENT MANAGERS (AUS) LTD

Main Contact: David Bell
Email: *dbell@colonialfirststate.com.au*

Head office: Level 29, 52 Martin Place,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9273 3018
Fax: +61 2 9273 3172
Website: **www.colonialfirststate.com.au**
Area of Activity: Hedge Fund Manager/Allocator Manager

DAWNAY, DAY WALDEN PTY LTD

Main Contact: Les Walden
Email: *les.walden@dawnayday.com.au*

Head office: Dawnay Day House , Level-1, 117 Harrington Street ,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8915 9999
Fax: +61 2 8264 0353
Website: **www.dawnayday.com**
Area of Activity: Hedge Fund Manager / Adviser

DV01 FUNDS MANAGEMENT PTY LTD

Main Contact: Greg Madden
Email: *greg.madden@dvo1.com*

Head office: PO Box 5672, St Georges Terrace,
Perth, WA 6831
Country: Australia
Telephone: +61 8 9481 8695
Fax: +61 8 9481 8742
Website: **www.dvo1.com**
Area of Activity: Hedge Fund Manager / Adviser

EBC EQUITIES PTY LTD

Main Contact: John Carter
Email: *j.carter@ebcapital.com.au*

Head office: Level 8, 25 Bligh Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9232 3957
Website: **www.ebcapital.com.au**
Area of Activity: Hedge Fund Manager / Adviser

ECLECTIC CAPITAL MANAGEMENT PTY LTD

Main Contact: David Somerton
Email: *ds@ecmfunds.com*

Head office: 171 Park Street, South Melbourne, Melbourne, VIC 3205

Country: Australia
Telephone: +61 3 9685 8900
Fax: +61 2 9685 2000
Website: **www.ecmfunds.com**
Area of Activity: Hedge Fund Manager / Adviser

ELLERSTON CAPITAL LTD

Main Contact: Cathy Kovacs
Email: *ckovacs@ellerstoncapital.com*

Head office: Level 3, 54-58 Park Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9282 8897
Fax: +61 2 9282 8818
Website: **www.ellerstoncapital.com.au**
Area of Activity: Hedge Fund Manager / Adviser

EVEREST BABCOCK & BROWN

Main Contact: Jeremy Reid
Email: *jreid@everestcapital.com.au*

Head office: Level 35 AMP Centre, 50 Bridge Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8001 9100
Fax: +61 2 8001 9200
Website: **www.everestcapital.com.au**
Area of Activity: Allocator Manager

FINANCIAL RISK MANAGEMENT (AUSTRALIA) PTY LTD

Main Contact: Derek Goodyer
Email: *derek.goodyer@frmhedge.com*

Head office: Level 33, Aurora Place, 88 Phillip Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9256 4900
Fax: +61 2 9252 1005
Website: **www.frmhedge.com**
Area of Activity: Allocator Manager

FIVE OCEANS ASSET MANAGEMENT

Main Contact: Ross Youngman
Email: *ryoungman@5oam.com*

Head office: Level 10, 255 Pitt Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9994 7490
Fax: +61 2 9994 7654
Website: **www.5oam.com**
Area of Activity: Hedge Fund Manager / Adviser

FORTITUDE CAPITAL

Main Contact: Tim McGowen
Email: *tim@fortitudecapital.com*

Head office: Suite 2, Level 6, 10 Bridge Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9241 5573
Fax: +61 2 9241 4947
Website: **www.fortitudecapital.com**
Area of Activity: Hedge Fund Manager / Adviser

FUNDHOST LIMITED

Main Contact: Anne Ridgway
Email: *anner@fundhost.com.au*

Head office: PO Box N561, Grosvenor Place,
Sydney, NSW 1219
Country: Australia
Telephone: +61 2 8223 5400
Fax: +61 2 9232 8600
Website: **www.fundhost.com.au**
Area of Activity: Hedge Fund Manager / Adviser

GOLDMAN SACHS JBWERE INVESTMENT MANAGEMENT PTY LTD

Main Contact: Hylton Mathews
Email: *hylton.mathews@gsjbw.com*

Head office: Level 17, 101 Collins Street,
Melbourne, VIC 3000
Country: Australia
Telephone: +61 3 9924 0144
Fax: +61 3 9679 0734
Website: **www.gsjbwere.com**
Area of Activity: Allocator Manager

GREEN CROSS CAPITAL PTY LTD

Main Contact: Raef Newitt
Email: *rnewitt@greencrosscapital.com*

Head office: 22/8 Victoria Parade, Manly,
Sydney, NSW 2095
Country: Australia
Telephone: +61 2 8213 7306
Fax: +61 2 8213 3595
Website: **www.greencrosscapital.com**
Area of Activity: Allocator Manager, Hedge Fund Manager / Adviser

H3 GLOBAL ADVISORS PTY LTD

Main Contact: Diana Price
Email: *diana@h3global.com*

Head office: Level 1, Millions House, 122 Pitt Street ,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8221 0531
Fax: +61 2 9221 6308
Website: **www.h3global.com**
Area of Activity: Hedge Fund Manager / Adviser

HAWKESBURY ADVISORS PTY LTD

Main Contact: Mark Hodgkin
Email: *mhodgkin@hawkcap.com*

Head office: Level 27, Grosvenor Place, 225 George Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9271 0500
Website: **www.hawkcap.com**
Area of Activity: Hedge Fund Manager / Adviser

IPAC ASSET MANAGEMENT LIMITED

Main Contact: Alison Tanswell
Email: *alison.tanswell@ipac.com.au*

Head office: Level 31, 225 George Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9373 7000
Fax: +61 2 9373 7111
Website: **www.ipac.com.au**
Area of Activity: Allocator Manager

KAISER TRADING GROUP PTY. LTD.

Main Contact: Anthony Kaiser
Email: *tony@kaisertrading.com*

Head office: Level 7, 417 St. Kilda Road, Melbourne, VIC 3004
Country: Australia
Telephone: +61 3 9866 9301
Fax: +61 3 9866 9302
Website:
Area of Activity: Hedge Fund Manager / Adviser

MACQUARIE FUNDS GROUP

Main Contact: Jonathan Hall
Email: *jonathan.hall@macquarie.com*

Head office: Level 8, 1 Martin Place, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8232 3327
Fax: +61 2 8232 4160
Website: www.macquarie.com.au
Area of Activity: Allocator Manager, Hedge Fund Manager / Adviser

MAN INVESTMENTS AUSTRALIA

Main Contact: Urs Alder
Email: *ualder@maninvestments.com.au*

Head office: Level 21, Grosvenor Building, 225 George Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8259 9999
Fax: +61 2 9252 4453
Website: **www.maninvestments.com.au**
Area of Activity: Allocator Manager

MIR HEDGE FUND MANAGEMENT PTY LTD

Main Contact: Michael Triguboff
Email: *mptri@mir.com.au*

Head office: Level 40, 50 Bridge Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8222 0800
Fax: +61 2 9230 0543
Website: **www.mir.com.au**
Area of Activity: Hedge Fund Manager / Adviser

NEWEDGE AUSTRALIA PTY LTD

Main Contact: Toby Lawson
Email: *toby.lawson@newedgegroup.com*

Head office: Level 23, 400 George Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9235 6205
Fax: +61 2 9230 6817
Website: **www.newedgegroup.com**
Area of Activity: Banking Services (excl. PB), Prime Brokerage Services

OPTIMAL FUND MANAGEMENT PTY LTD

Main Contact: Warwick Johnson
Email: *warwickj@optimaljapan.com*

Head office: Level 5, 175 Macquarie Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8239 3300
Fax: +61 2 8239 3333
Website: **www.optimalasia.com**
Area of Activity: Hedge Fund Manager / Adviser

PENGANA HOLDINGS PTY LTD

Main Contact: Nick Griffiths
Email: *nick@pengana.com.au*

Head office: Level 29, 20 Bond Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8524 9900
Fax: +61 2 8524 9911
Website: **www.pengana.com.au**
Area of Activity: Allocator Manager

PIONEER GLOBAL INVESTMENTS (AUSTRALIA) PTY LTD

Main Contact: Neil Wild
Email: *neil.wild@pioneerinvest.com*

Head office: Level 31 Aurora Place, 88 Phillip Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8211 0555
Fax: +61 2 8211 0566
Website: **www.pioneerinvest.com**
Area of Activity: Allocator Manager

PMA INVESTMENT ADVISORS LIMITED

Main Contact: Trevor Easterbrook
Email: *easterbrookt@pmaia.com*

Head office: Suite 402, 35 Lime Street, King Street Wharf,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9262 5218
Fax: +61 2 9262 5190
Website: **www.pmaia.com**
Area of Activity: Hedge Fund Manager / Adviser

REGAL FUNDS MANAGEMENT PTY LTD

Main Contact: Andrew King
Email: *andrew.king@regalfm.com*

Head office: Level 47, Gateway, 1 Macquarie Place,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8197 4333
Fax: +61 2 8197 4334
Website: **www.regalfm.com**
Area of Activity: Hedge Fund Manager / Adviser

SELECT ASSET MANAGEMENT

Main Contact: Robert Graham-Smith
Email: *robert.graham-smith@selectfunds.com.au*

Head office: Level 10, 2 Bulletin Place,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8252 2200
Fax: +61 2 8252 2201
Website: **www.selectfunds.com.au**
Area of Activity: Allocator Manager, Hedge Fund Manager / Adviser

SHELL COVE CAPITAL MANAGEMENT LTD

Main Contact: Paul Brech
Email: *paul.brech@shellcove.net*

Head office: Suite 411, 15 Lime Street,
Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9299 3366
Fax: +61 2 9299 2800
Website: **www.shellcove.net**
Area of Activity: Hedge Fund Manager / Adviser

SYZYGIA PTY LTD

Main Contact: Tim Baker
Email: *tim.baker@syzygia.com.au*

Head office: L 17 BNP Paribas Centre, 60 Castlereagh Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9231 7632
Fax: +61 2 9231 7575
Website: **www.syzygia.com.au**
Area of Activity: Hedge Fund Manager / Adviser

TECHINVEST PTY LIMITED

Main Contact: Rick Steele
Email: rick@techinvest.com.au

Head office: Level 13, 234 George Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8965 0480
Fax: +61 2 9475 0263
Website: **www.techinvest.com.au**
Area of Activity: Hedge Fund Manager / Adviser

TRICOM INVESTMENT MANAGEMENT LTD

Main Contact: Tim McNamara
Email: *timothy.mcnamara@tricom.com.au*

Head office: 1 Farrer Place, Level 27, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8336 7487
Fax: +61 2 8336 7687
Website: **www.tricom.com.au**
Area of Activity: Hedge Fund Manager / Adviser

TRIDENT PACIFIC CAPITAL

Main Contact: Jens Muenster
Email: *jens.muenster@trident-pacific.com*

Head office: 66 Hunter Street, Level 9, Suite 1, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8231 0168
Fax: +61 2 8231 0167
Website: **www.trident-pacific.com**
Area of Activity: Hedge Fund Manager / Adviser

VERTEX CAPITAL MANAGEMENT LIMITED

Main Contact: Kim Ivey
Email: *kivey@vertexcapital.com.au*

Head office: 50 Bridge Street, Level 34, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9251 1877
Fax: +61 2 8216 0701
Website: **www.vertexcapital.com.au**
Area of Activity: Hedge Fund Manager / Adviser

BLAKE DAWSON

Main Contact: Ruth Stringer
Email: *ruth.stringer@blakedawson.com*

Head office: Level 41, Grosvenor Place, 225 George Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9258 6000
Fax: +61 2 9258 6999
Website: **www.bdw.com.au**
Area of Activity: Legal Services

CLAYTON UTZ

Main Contact: John Moutsopoulos
Email: *jmoutsopoulos@claytonutz.com*

Head office: Levels 25-34, No. 1 O'Connell Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9353 4000
Fax: +61 2 8220 6700
Website: **www.claytonutz.com**
Area of Activity: Legal Services

DLA PHILLIPS FOX

Main Contact: Martin Jamieson
Email: *martin.jamieson@dlaphillipsfox.com*

Head office: Level 38, 201 Elizabeth Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9286 8059
Fax: +61 2 9283 4144
Website: **www.dlaphillipsfox.com**
Area of Activity: Legal Services

HENRY DAVIS YORK

Main Contact: John Currie
Email: *john_currie@hdy.com.au*

Head office: Henry Davis York Building, 44 Martin Place, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9947 6000
Fax: +61 2 9947 6999
Website: **www.hdy.com.au**
Area of Activity: Legal Services

MINTER ELLISON LAWYERS

Main Contact: Nathan Cahill
Email: *nathan.cahill@minterellison.com*

Head office: Aurora Place, 88 Phillip Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9921 8888
Fax: +61 2 9921 8388
Website: **www.minterellison.com**
Area of Activity: Legal Services

APOSTLE ASSET MANAGEMENT LTD

Main Contact: Deon Joubert
Email: *deonj@apostleam.com.au*

Head office: Level 11, 23-25 O'Connell Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8224 2900
Fax: +61 2 8224 2910
Website: **www.apostleam.com.au**
Area of Activity: Adviser/Third-Party Marketing Services

BROOKVINE PTY LTD

Main Contact: Steven Hall
Email: *stevenhall@brookvine.com.au*

Head office: Suite 2, 60 Moncur Street, Woollahra, Sydney, NSW 2025
Country: Australia
Telephone: +61 2 9328 6445
Fax: +61 2 9326 1311
Website: **www.brookvine.com.au**
Area of Activity: Adviser/Third-Party Marketing Services

FINEANSWERS

Main Contact: Jon Glass
Email: *jon@fineanswers.com.au*

Head office: GPO Box R1895, Royal Exchange, Sydney, NSW 1225
Country: Australia
Telephone: +61 4 0911 6766
Website: **www.fineanswers.com.au**
Area of Activity: Adviser/Allocator Manager

GROVE RESEARCH & ADVISORY PTY LTD

Main Contact: Simon Ibbetson
Email: *simon.ibbetson@groveadvisory.com.au*

Head office: Level 3, 23-25 O'Connell Street, Sydney, NSW 2000
Country: Australia
Telephone: +612 8246 8800
Fax: +612 8246 8899
Website: **www.groveadvisory.com.au**
Area of Activity: Adviser/Investment Consultant

HARBRIDGE INVESTMENT PARTNERSHIPS PTY LTD

Main Contact: Jenni Harding
Email: *jenni.harding@harbridge.com.au*

Head office: PO Box 2162, Boronia Park, Sydney, NSW 2111
Country: Australia
Telephone: +61 2 9816 3186
Website: **www.harbridge.com.au**
Area of Activity: Consultant (Compliance, Investment, Other)

CITCO FUND SERVICES (AUSTRALIA) PTY LTD

Main Contact: Donna Hutchings
Email: *dhutchings@citco.com*

Head office: Level 23, 45 Clarence Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9005 0400
Fax: +61 2 9005 0452
Website: **www.citco.com**
Area of Activity: Fund Administration, Accounting & Custody Services

JP MORGAN CHASE BANK N.A. AUSTRALIA

Main Contact: David Edwards
Email: david.x.edwards@jpmorgan.com

Head office: Level 36, 259 George Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9250 4000
Website: **www.jpmorgan.com**
Area of Activity: Fund Administration, Accounting & Custody Services

KINGSWAY TAITZ FUND ADMINISTRATION PTY LTD

Main Contact: Brian Taitz
Email: *btaitz@kingswaytaitz.com.au*

Head office: Level 2, 37 Bligh Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8257 3310
Fax: +61 2 8915 1620
Website: www.kingswaytaitz.com.au
Area of Activity: Consultant (Compliance), Fund Administration, Accounting & Custody Services

STATE STREET AUSTRALIA LIMITED

Main Contact: Chris Field
Email: *cfield@statestreet.com*

Head office: Level 18, 338 Pitt Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9323 6000
Fax: +61 2 9323 6666
Website: **www.statestreet.com.au**
Area of Activity: Fund Administration, Accounting & Custody Services

CITIGROUP GLOBAL MARKETS

Main Contact: John Gregory
Email: *john.gregory@citigroup.com*

Head office: Level 21, 2 Park Street, Citigroup Centre, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8225 6424
Fax: +61 2 8225 5471
Website: **www.citi.com**
Area of Activity: Prime Brokerage Services

DEUTSCHE SECURITIES AUSTRALIA LIMITED

Main Contact: James Jennings
Email: *james.jennings@db.com*

Head office: Deutsche Bank Place, Corner of Hunter & Phillip Streets, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8258 3084
Fax: +61 2 8258 1400
Website: **www.db.com**
Area of Activity: Banking Services (excl. PB), Prime Brokerage Services

GOLDMAN SACHS AUSTRALIA PTY LTD

Main Contact: Murray Chatfield
Email: *murray.chatfield@gsjbw.com*

Head office: Level 48, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9320 1365
Fax: +61 2 9320 1098
Website: **www.gsjbw.com**
Area of Activity: Prime Brokerage Services

MERRILL LYNCH EQUITIES (AUSTRALIA) LIMITED

Main Contact: Paul Thomas
Email: *paul_thomas@ml.com*

Head office: Governor Phillip Tower, 1 Farrer Place, Level 38, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9226 5093
Website: **www.ml.com**
Area of Activity: Prime Brokerage Services

UBS AG

Main Contact: Colin Taylor
Email: *colin.taylor@ubs.com*

Head office: Level 25, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9324 2000
Fax: +61 2 9324 2033
Website: **www.ubs.com**
Area of Activity: Prime Brokerage Services

EXCHANGES

CME GROUP

Main Contact: Nick Bolton
Email: *nicholas.bolton@cmegroup.com*

Head office: Level 17, BNP Paribas Centre, 60 Castlereagh Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9231 7475
Fax: +61 2 9231 7476
Website: **www.cmegroup.com**
Area of Activity: Exchange / Clearing House

ACCOUNTANTS

ERNST & YOUNG LLP

Main Contact: Mark O'Sullivan
Email: *mark.o'sullivan@au.ey.com*

Head office: GPO Box 2646, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8295 6044
Fax: +61 2 8295 6300
Website: **www.ernstyoung.com.au**
Area of Activity: Accounting, Audit, Tax & Related Services

KPMG

Main Contact: Andrew Schofield
Email: *aschofield@kpmg.com.au*

Head office: Level 11, 10 Shelley Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9335 7000
Fax: +61 2 9299 7077
Website: **www.kpmg.com.au**
Area of Activity: Accounting, Audit, Tax & Related Services

OTHER

MSCI BARRA

Main Contact: Michael Anderson
Email: *michael.j.anderson@mscibarra.com*

Head office: Level 9, 1 Castlereagh Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 9220 9300
Fax: +61 2 9220 9399
Website: **www.mscibarra.com**
Area of Activity: Data & Rating Services, Systems Vendor

WESTPAC INSTITUTIONAL BANK

Main Contact: Simon Gibbins
Email: *sgibbins@westpac.com.au*

Head office: Westpac Place, Level 3, 275 Kent Street, Sydney, NSW 2000
Country: Australia
Telephone: +61 2 8254 8215
Fax: +61 2 8254 6939
Website: **www.westpac.com.au**
Area of Activity: Banking Services (excl. PB)

Alternative Investment
Managment Association

Australia

For more information:

AIIMA Australia
44 Market Street, Level 24
Sydney, NSW 2000, Australia
ph. 02-8235-2530 ~ fax. 02-9299-3198
www.aima-australia.org