



The Australian Hedge Newsletter

January 2010



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We have joined with Triple A Partners (Asia Alternative Asset Partners)

We have changed our name, address, phone numbers and emails. Instead of Hatfield Advisors, we are now part of the global entity, Triple A Partners.

The group, based in Hong Kong, was founded by industry veterans, Paul Smith, Hans Tiedemann and Roger Pyrke. Also well known to a lot of our readers is Joanne Murphy who joined Triple A in Hong Kong in 2008.

So what's this all about?

When I first started my hedge fund marketing business, I had a vision for research-based distribution of alternative fund products. (Similar to an equity broker marketing well researched listed shares).

Third party marketing of hedge funds developed out of Capital Introduction business units within Investment Banks/Prime Brokerages. Some Cap Intro people left the brokers/banks and set up home offices to represent hedge fund clients to investors.

I had always taken the view that the business was somewhat a cottage industry. Typically, it was one individual working at home in his pajamas (in my case board shorts as I still get out on my surfboard), setting up meetings for roadshows.

To me, however, third party marketing had the potential to be a global distribution business. Paul Smith, ex-HSBC Global Head of Hedge Funds Administration, shared that view. Triple A Partners now has offices in London, New York, Santa Monica (headed by fellow surfer Warren Wibbelsman), Tokyo, Seoul, Hong Kong and now Sydney. The other members of the team include Frank Packard in Tokyo, Henry Morris in Seoul, Cathy Ellsworth in New York, and Nick Paris in our London affiliate, all industry veterans.

There are a number of objectives for the combined businesses. We want to be able to

offer a global distribution service for local hedge fund managers. For instance, if we represent an Australian Long Short Equity manager, not only would we introduce that manager to local investors but we would work with our London counterparts to introduce that manager to say European based Fund of Funds, Private Banks, Family Offices and Pension Funds. Similarly, we would work across our international offices in the US and Asia for this manager.

In addition, we now have access to managers sourced in various global locations. This expands our access to other sectors and regions within the hedge fund industry. Recent feedback from Australian investors is that they are looking more closely at Asia, in particular China and India, for allocation of investment capital. By developing the global network, a local investor could come to Triple A Partners and ask for an introduction to a range of managers in a specific region. We now have the full capabilities to conduct a targeted search on behalf of that investor.

For example, an investor friend of mine (I do have one or two!) recently went skiing in the US. He wanted to visit a number of US managers, in addition to attempting to break his leg. The Triple A Partners Santa Monica office coordinated manager meetings in San Francisco, Santa Barbara, Laguna Beach, and San Diego.

We have developed, over many years of industry interaction, a large central database which identifies the various segments of hedge fund investors and managers. As a team we interact weekly to discuss our managers, investors, trends and opportunities.

In addition to global distribution, Triple A Partners have a seeding joint venture with Hong Kong-based Penjing Asset Management. The existing seed fund will be renamed Penjing Triple A Partners Emerging Managers Fund. A

new seeding fund is to be launched shortly targeting a capital raising of \$100 million.

So if you start to receive emails from a different domain, i.e. triplepartners.net, please adjust your firewalls so that you can continue to receive our newsletter.

Many thanks and don't hesitate to call me or email me with your thoughts. By the way, I have added a 'Gadget Corner' section to this newsletter. Feel free to offer any contributions.

Damien Hatfield

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News

Intech bullish on hedge funds

Intech says 'hedge funds remain a valid diversifier for portfolios dominated by shares, and offer better liquidity than unlisted assets.'

In its first 'Insight' report for 2010, the asset consulting firm noted that to maximise benefits from hedge fund allocations, investors should deploy five strategies.

1. focus on differentiated strategies, thereby reducing the risk of crowded trades and the impact of other investors.
2. choose managers which hedge and seek to profit from negative views, as this reduces sensitivity to market ups and downs.
3. trade off liquidity to get access to a wider talent pool, more opportunities, and ultimately higher returns or more diversification.
4. tailor allocations to fit the needs of a broadly-diversified portfolio by combining dedicated internal expertise and customised research from external specialist research.
5. allocate enough to hedge funds to make a difference to total portfolio returns.

The report, prepared by Michael Coop, Intech's head of alternative investments, also noted that last year's disappointing returns from hedge funds were due more to one-off factors than fundamental problems with strategies or managers.

The three main one-off factors were large scale investor redemptions, and the withdrawal of debt financing by prime brokers, both which

forced hedge funds to cut positions when other participants were doing the same in 'crowded' markets. The third factor was short-selling bans which restricted hedge fund strategies. These one-off factors abated in early 2009.

Intech concludes that 'the outlook for hedge fund returns is positive now that there is less money (\$300 billion redeemed worldwide in 08 and 09) competing for the wide range of opportunities presented by today's policy extremes and a large default cycle.'

Details;

http://preprod.admin.intech.roadhouse.com.au/Assets/Files/INT-3-006%20Hedge%20Funds_0110.pdf

Financial Centre Forum recommendations could boost hedge fund industry

The Australian hedge funds industry will be significantly boosted if key recommendations by the Australian Financial Centre Forum (AFCF) are implemented by the government. Top of the list of AFCF's key recommendations include an 'Investment Manager Regime, funds management vehicles and an Asian passport package of proposals, which will help Australian fund managers to attract overseas investors into funds run out of Australia.'

The AFCF was tasked by the Federal government to seek ways to develop Australia as a regional financial centre. The forum's 166 page report is at;

http://www.treasury.gov.au/afcf/content/reference_papers/downloads/AFCF_Building_on_Our_Strengths_%20Report.pdf:

UK Hermes to target super funds through Pure Capital

UK based Hermes Pensions Management (HPM) plans to offer its range of boutique investment strategies to Australian super funds.

Saker Nusseibeh, HPM's head of investment, told *I&T News* the strategies include global equities, real estate, hedge funds, private equity and small companies markets, in addition to its well-known activist funds. Nusseibeh is due to visit Australia in February.

The firm is understood to be in discussions with third-party marketer Plus Capital Investment Management, which already

represents the Hermes BPK hedge fund-of-funds in Australia, according to *I&T*.

HPM is wholly owned by the GBP32 billion (A\$57.6 billion) BT Pensions Scheme, the UK's largest funded pension scheme, according to HPM's website. It uses a multi-boutique asset manager business model and has GBP21.6 billion (A\$38.9 billion) under management. Alternatives account for 22.6% of its assets.

UK managed futures funds marketed by Australian institutions

Macquarie and Colonial First State have announced separate deals to sell UK managed futures funds to Australian retail investors. Macquarie Bank recently launched its Winton Global Opportunities Trust 2 as a structured product with capital protection. The bank has had a relationship with Winton Capital Management, a managed futures fund manager, since 2005.

Meanwhile, CFS will market a range of funds from Aspect Capital, another UK-based managed futures fund manager. Aspect is already being marketed by Sydney based Select Asset Management both as a stand-alone offering and as part of its multi-manager portfolios.

Trio in trouble

Regulators and the administrator of Trio Capital have yet to locate the whereabouts of \$118 million invested by Trio into the Astarra Strategic Fund (ASF) which was placed into liquidation late last year.

The *Sydney Morning Herald* (*SMH*) reports that the authorities have discovered the monies have been placed with EMA International, a British Virgin Islands, (BVI) registered company that allocates to hedge funds, but the trail ends there.

Trio's administrators are now claiming \$120 million from Astarra Asset Management (AAM), the management company Trio appointed to manage the ASF, (and other Trio fund products totalling \$426 million), according to the *SMH*. There are approximately 10,000 investors affected, according to the Australian Securities and Investments Commission.

AAM (previously named Absolute Alpha) is directed by Shawn Richard and Eugene Liu, who are also the directors of Trio's owner, Wright Global Asset Management, according to the *SMH*. Richard, a Canadian, and Liu,

from New Jersey, have reportedly surrendered their passports 'without admission.'

Both previously worked for UK headquartered broker Pacific Continental Securities which collapsed in 2007 with estimated investor losses of around £300 million. PCS was 'castigated by the Financial Services Authority, which found it had acted without integrity between 2005 and 2007,' writes the *SMH*.

Future Fund doubles investment in alternatives

The Future Fund (FF) more than doubled its allocation to alternatives in the December quarter. Alternatives rose to an 11.4% weighting, from 4.6% the previous quarter, equivalent to \$4.5 billion in new funds deployed mostly to hedge funds. The \$66.2 billion FF, Australia's sovereign wealth fund, has a targeted alternatives allocation of 15%.

FF's chairman, David Murray, said cash holdings fell from 32% to 15.5% with monies 'primarily allocated to a diverse range of strategies in the alternatives program, where skilled managers are able to take advantage of opportunities arising from capital scarcity and market inefficiencies...'

Since the effective start of the FF's investment program on 1 July 2007, the return (ex-\$4.4 billion holding in Telstra shares) has been 2.3% per annum.

Five Oceans wins \$50 million mandate from high-net-worth advisory group

Garnaut Private Client Advisors (Garnaut-PCA) has allocated \$50 million to Five Oceans Asset Management to run a China and India themed fund, according to *I&T News*. Garnaut-PCA is a Melbourne-based high-net-worth advisory firm with \$450 million under advice. It is a specialist in alternative investments, according to its website.

Five Oceans, backed by Challenger Financial Service, is a boutique equities manager with \$300 million under management. It is a long-only manager but uses hedges and short sell positions for portfolio and volatility protection.

Australian 130/30 funds receive positive review from van Eyk

van Eyk's review of the Australian Equities Extension Sector (130/30 or similar) concluded that:

1. Most of the review group have capacity issues and there is scope for new quality fund managers to enter this space with retail products.
2. Extension strategies offer greater potential for "alpha" than traditional long-only Australian equities strategies.
3. Most fund managers target net exposure of close to 100%, generated through long exposure of 110-150% offset by short exposure of 10-50%.
4. The overall performance of the sector drew a positive review. On a rolling 12 month basis, the peer group have, on average, outperformed the S&P/ASX300 Index by 7.7% to September 30, 2009.
5. Performance fees received by some fund managers are excessive. Some applied performance fees for simply outperforming the benchmark and some did not apply perpetual high water marks.

The review, conducted by van Eyk's Chris Bigg, was based on more than 10 managers in the sector. van Eyk provides investment research services to around 50% of all financial planners in Australia, representing some \$200 billion under advice.

The Era of the Investor, - New Rules of Institutional Hedge Fund Investing

A survey, conducted by SEI and Greenwich Associates, of institutional investors in hedge funds noted the following:

1. Institutions have maintained their commitment to hedge funds. On average, target portfolio allocations to hedge funds rose from under 13% to nearly 14% last year.
2. Diversification and absolute return remained the primary investment objectives.
3. Far greater information is required from hedge funds. Transparency is 'both the biggest worry and the single-

greatest challenge' related to hedge fund investing. Liquidity risk and 'failing to achieve primary objective' rank 2nd and 3rd amongst worries about hedge fund investing.

4. People, investment philosophy, and the process for generating alpha were among top-ranked selection criteria, as they were in the 2008 survey.
5. More emphasis is now placed on operational quality. Fee pressures have intensified.

Details at;
<http://www.hedgeweek.com/sites/default/files/HedgeWeek-SEI-EraOfInvestorOverview%02025%020January%0202010.pdf>

People on the move

BT Investment Management has hired Vimal Gor and Stuart Eliot to its Multi Strategies team. Gor previously managed global bond portfolios for Aviva Investors London. Eliot previously worked for the UBS Delta team London in an implemented quantitative finance role. Both report to Robert Swift, Head of BTIM's Multi Strategies group.

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Macquarie Group's Private Wealth division has hired Simon Scott as a product sourcing manager within the dealer services team, according to *InvestorDaily*. Scott was previously at S&P's head of structured and alternative investments.

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Russell Investments is seeking to hire a director of alternatives consulting and an investment analyst in Australia to boost its alternatives research capability, according to Russell's director of consulting and advisory services, Greg Liddell, speaking to *InvestorDaily*. The two local hires are part of a programme to hire 30 staff globally this year to build the firm's alternative investment capability. However, the focus for the Australian alternative business would predominantly be in infrastructure and private equity, Liddell said.

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Brookvine has hired Greg Hickling as a director. He was previously Citigroup's Australia/NZ head of distribution for alternative investments. Brookvine has also promoted Tim Peters as research manager to lead the firm's due diligence and research activities. The third-party marketing firm,

established in 2001, has raised \$7.5 billion to date. Only one of its nine clients is a hedge fund.

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The Investment Management Consultants Association (IMCA) Australia appointed five new members to its 14 strong board in 2009.

The five are:

Gareth Abley, head of asset consulting, MLC Implemented Consulting

Brett Elvish, founder, Financial Viewpoint (ex-head of Intech)

Greg Liddell, director of consulting and advisory services, Russell Investments

Jeff Rogers, CIO, IPAC

Janice Sengupta, principal, AON Consulting,

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Eight Investment Partners, (8IP) a Sydney based pan Asian equities boutique, has hired Boon Hong-Yeo and Drew Wilson to its executive team, according to *I&T News*.

Boon is the former head of Asian equities at Credit Suisse Asset Management while Wilson will continue as managing director of Sydney based Atom Funds Management. Both 8IP and Atom are owned by South Africa's Salam International Investment Partners, a division of the listed Sanlam Group which has a market capitalisation of US\$6 billion. 8IP was established late last year with the hire of Kerry Series, (ex-AMP Capital and ex founder of Perennial) as its CIO.

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nabInvest has hired Tim Batho to work on a range of investment strategies, according to *I&T News*. Batho was previously head of investment services at ipac and worked with nabInvest's Investment Director, Nick Basile, in 1990s at Legal & General and at Commonwealth Investment Management. nabInvest is the NAB's boutique funds incubator.

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Credit Suisse Asset Management Hong Kong has appointed Neil Harvey, a former hedge fund manager, as Managing Director and Head of Asia Pacific and Global Head of Emerging Markets.

With several ex-Macquarie Bank executives, Harvey co-founded London-based Bennelong Asset Management, an Asia Pacific focussed multi-strategy hedge fund, in the early 2000s before joining Renaissance Group in 2006, serving most recently as Deputy CEO and Chairman International.

Manager/Product developments

Aviva Investors is set to launch its Absolute Tactical Asset Allocation Fund to Australian retail investors, according to *InvestorDaily*. Managed from the UK, it will be Aviva's first absolute return product to be rolled out in Australia.

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Ironbark Asset Management will partner with Karara Capital to launch the Ironbark Karara Australian Share Fund early in 2010. The arrangement is for exclusive distribution into the retail market and will involve Ironbark appointing Karara to manage the underlying assets of the fund.

Ironbark was established as a 3rd party marketer by a group of ex-Deutsche Asset Management (DeAM) executives. (see Triple A Australian Hedge, May 2009). This latest development reflects Ironbark's move to build its own branded product suite. Karara was established in April 2007 as a boutique active Australian equities manager. It is independently owned by staff and manages over \$1 billion in assets.

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Research house van Eyk has added two absolute return multi-manager equity funds to its Blueprint Series of multi-manager products. The Absolute Australian Shares Fund consists of funds from five managers; Acadian (Active Extension), SG Hiscock (EQT SGH), Zurich (Denning Pryce), and two from Macquarie. (Market Neutral and Arbitrage)

The Absolute International Shares Fund has allocations to funds managed by Arrowstreet, AXA Rosenberg, Five Oceans, and Grant Samuel. Both funds use the Macquarie Treasury Fund for cash management. Daily liquidity is offered and fees are 1.5/10.

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There is increasing demand from institutional investors for hedge fund managers following the aftermath of the GFC, according to Andrew Landman, chief executive of fund incubator Ascalon speaking with *Financial Standard*. Landman said the provision of daily liquidity by hedge fund managers is an important drawcard for mandates. He added that the Westpac-owned incubator is not investing in managers that have gated products.

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Fortis Investment Management Australia plans to launch a retail version of its Australian

Long Short Equitised Fund in March, according to *InvestorDaily*. George Clapham, Fortis' head of Australian equities told the publication that the existing wholesale version has been operating for 4+ years and on average is 2/3 long and 1/3 short. The manager currently has two long-only Australian equity retail products on offer.

Singapore-based GFIA will establish and manage a family office for a high-net-worth family, according to *Hedgeweek*. The development marks a major step for the hedge fund consultancy into HNW wealth management services. The firm was established by Peter Douglas (ex Aberdeen AM) and counts Paul Smith as non-executive chairman. Smith is the CEO of Triple A Partners which recently joint ventured with Damien Hatfield's firm in Australia.

Investor/Asset Consulting developments

Frontier Investment Consulting will review its alternatives portfolio shortly as part of its ongoing assessment of all asset classes, according to Kristian Fok, deputy managing director, speaking to *Financial Standard*. The asset consultant, with \$90 billion under advice, has around 25% of client portfolios allocated to alternatives comprising of private equity and hedge funds (3- 4% combined); infrastructure (10%) and unlisted property (7-10%).

Fok told *Financial Standard* that its clients currently have around \$10 billion in cashflows to allocate, suggesting hedge funds and private equity could see inflows of another \$300-\$400 million shortly.

Industry developments

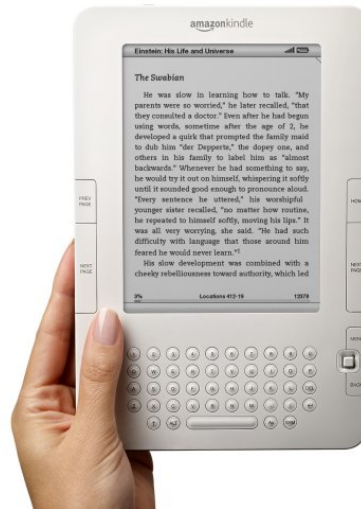
Hedge funds globally ended 2009 on a strong note. The composite Eurekahedge Hedge Fund (global) Index returned 19.16% for the year – the best performance on record since 2003 when the index gained 21%.

Eurekahedge's Asia ex-Japan hedge funds index posted gains of 37.98% for 2009 which is the best yearly performance for all regions on record. Globally hedge fund assets are now at US\$1.48 trillion, according to the Singapore based consultancy.

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Geneva based EIM, a US\$8.5 billion fund of hedge fund, sees its business growth in 2010 coming from the US and Asia, according to Antonio Muñoz-Suñé, CEO of the firm's US operations, speaking to *AsianInvestor*. The firm's Singapore office is run by Australian native Mike Moskolos, (ex-Mercer Consulting), who is in charge of manager research and business development. The firm is establishing a platform for separate managed accounts, where Deutsche Bank will serve as risk manager.

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Hatfield's Gadget Corner: iPad or Kindle?

Some of you are aware that I am a bit of a technology lover. Always the latest gadget. It's a bit of a hobby, but it's also a way of mine to maximise productivity.

A couple of months ago I saw the international release of the Amazon Kindle and I was able to order one in Australia. This is a great gadget. It cost A\$300 landed, and you registered with Amazon and started downloading books.

A couple of attractions for me. Like a lot of us in the hedge fund industry, I travel quite a bit. I have my airline routine, iPod for music and videos, and I always take a book for the outgoing flight and another for the home flight. Bricks in the carry-on luggage! But now, the Kindle comes along, it's less than a half an inch thick, and takes up to 1500 books.

First book was the Girl with the Dragon Tattoo. Great read except that for some strange reason, my download was the text for the third book in the series. Technical glitch, so I ended up reading the third, second and the first in the trilogy.

The other book I immediately down loaded was Michael Connolly's 9th Dragon, another great Harry Bosch LA detective read. The average price for these books was \$10! I read a lot, in fact just finished the Greatest Trade Ever, about the Sub Prime short traders including John Paulson. In Sydney, these books in soft-cover range from \$23 to \$35! Big difference. Now the purist will say "but I like the feel of turning the page". You get used to the eReader and you probably won't go back. This is all about reducing space and carry-on luggage.

So Steve Jobs announces the iPad. I will have one of those, so somebody in my household will score a Kindle.

This iPad is gadget nirvana. Beautiful screen, just under 10". It's an eReader, (with a back-lit screen but I am used to it), a Gamer machine (I'm not big on gaming), email, web browsing, word processing, spreadsheet and presentations via iWorks.

Plus I can download photos, DVDs, and my select album collection. If you check out my collection, it is scattered with Rolling Stones, Jethro Tull, Led Zep, Yes, and recently the David Bowie Reality Tour CD released last month.

I'll be going for the 64GB non G3 version. I've never been animated by the G3 web browsing. I'd rather wander into a free wifi location, - hotels and airport lounges - and connect up that way. G3 data plans are a bit of con, particularly if you land in a foreign country, and if the local carrier shanghai's you, you get a massive bill.

I am a big user of the iTunes store, not only for my old hard rock, but TV Shows like 24, Law and Order and latest release movies. I get annoyed as a lot of you, when you travel and all the airlines have the same crappy movies. I like to load up on latest releases and use them on a flight. It looks like the iBook store will carry titles at or around the same price as the Kindle Store, -- around \$10.

You might think, does this guy do any work? Well actually I do. I do read DDQs, PPMs, Presentations and Termsheets. I'll be able to load them onto the iPad and read them when necessary.

To all those people who say I'll wait for Mark II. Rubbish, just buy one straightaway. Rarely does an Apple first release have issues. The Mark II will be a year off, and you will have missed out a year of enjoyment. US start price is \$499 for a 16GB. If you want the 64GB 3G version you will pay \$829. I still think the Aussie pricing will be under a grand. Just do it.

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