Triple A Partners AUSTRALIA

AUSTRALIAN HEDGE

January 2012 NEWSLETTER

2012: What's going to happen?

When I was a Futures Broker, clients would call me and ask what I thought the market was going to do? My first thought was that I had stupid clients. Why would you ask your broker? You are supposed to be the smart Institutional Investment intellect. Anyway, I developed a technique of putting it back to them. What do you think? Ahhh, you think it's going up. Well, I can see why you think that. I felt that it wasn't my place to argue the opposite side to a client's view. If you are right, and the market goes the other way, your client thinks that you are a smart ass. I'd rather be wrong with the client and we both commiserate together. The main reason why I got into the hedge fund business was that I didn't have to be right or wrong. Some of you are aware that I started introducing investors to Managed Futures or CTAs. Most are systematic traders where the algorithm makes the decision and you never have the silly conversation as whether you think the market is going up or down. In fact I love it when a CTA says that we never know where we are going to make profits this year. US Bonds, Currencies, Coffee, Wheat, who knows? They just let the system take them where the profits or losses are. I could look at long term track records and say that you should have your money with that manager who displays persistent performance. I like the old hands of the market. Over the years I developed certain views about managers and various sectors. For instance, if a manager has been making money in the past, why would they not make money in the future? On the offer documents it always says past performance isn't any guarantee of future performance. I think this is completely wrong. So old managers and consistent performers, now the trick is picking the sector. I once remember a Fund of Fund manager who regularly toured Australia speaking at conferences. Every year he prophesied the demise of the Convertible Bond Sector. Every year they put in stellar performance. Yes it did have a shake out I think in 2005, but prior to that, it was the stellar sector for at least a decade. His Fund of Fund portfolio significantly under performed his peers because he neglected CB Arb. I think the bigger question is "should I invest in hedge funds and managed futures in 2012"? Last year saw an industry decline of 5%. Year in year out, I have made the point that it's a rare year that hedge funds as an industry produce a negative. Global Equities were flat but had a 20% drawdown intra year. Just think of the investors including Superannuates that gave up the ghost at negative 20%. Hedge Funds displayed nowhere near the same intra year volatility. Just on the law of averages I think hedge funds will have a good year. There are mixed reports on inflows. As you will see in David Chin's news section, Preqin is upbeat whilst Greenwich and SEI are more tempered. I have been speaking to a lot of Superfunds and Consultants and I have been quite surprised at the intention to increase allocations to hedge funds. Australian and New Zealand institutions will be significant allocators in 2012. The message is that Equity and Fixed Income portfolios need some sort of downside buffer for volatility reduction.

Getting back to my original point, aside from my main job which is marketing managers, I try and read a lot of views on markets. This year I will be incorporating a section from an Economic standpoint. An old colleague, who I respect immensely, George Bijak, who will be editing an Economic views section of our newsletter. Back in early 2009, George was unrelenting in his bullishness on Equities and was calling for a significant rally off the back of his analysis. By contrast, at the end of 2007 George was bearish moving to cash just in time to avoid the GFC. Unlike me, who looks for the each way bet, George had his neck on the chopping block. George runs GB Capital Pty Ltd and puts out regular reports.

Happy New Year and Happy Investing for 2012!

NEWS

Preqin spotlights on macro, superfund and $1 billion investors

Global macro investors from Asia

- Australia's Aon Master Trust is planning to invest $20 million in macro hedge funds. The super fund currently has no hedge fund holdings, but has invested in the past. It will invest in both direct and funds of hedge funds in North America and Australia.
- Shin Kong Life Insurance (Taiwan) is planning to make its first investment in hedge funds since 2008. It has a preference for macro hedge funds but is yet to decide on the size of its investment.
- Cathay Life Insurance (Taiwan) is likely to allocate between $500 million and $800 million to build its hedge fund portfolio. It will invest in single manager funds with a global scope.
- Nomura Trust and Banking is also considering committing up to $50 million to macro hedge funds. It favours North American hedge funds and will only invest in single manager vehicles with a high level of transparency and liquidity.
- Nippon Life Insurance Company, (Japan) is looking to maintain its current allocation to hedge funds and will make opportunistic investments in the asset class. It favours event driven and long/short equity funds.

Superfunds

- Preqin has profiles on 64 Aust/NZ superannuation schemes that actively invest in hedge funds.
- The average allocation to hedge funds is 4.3 percent and the average target allocation to hedge funds is 5.7 percent. On average, there are three to five hedge fund investments in a superfund's portfolio.
- Sizable hedge fund investors include Retail Employees' Superannuation Trust - REST ($1.73 billion in hedge funds) and SunSuper ($1.26 billion).

The $1 Billion Club

- Regarded as those investors that individually allocate more than $1 billion to hedge funds (excluding funds of funds). There are 150 investors representing over $430 billion in invested assets in Preqin's database.
- Seventy percent of the $1 billion club will consider investment in emerging manager hedge funds. (50% for all other institutional investors in hedge funds).
- 49 percent of the $1 Billion Club would consider seeding arrangements (vs 19 percent for all other investors).
- However, the 'emerging' managers need to be sizable entities, as the average allocation of the $1 billion club is around $100 million.

Details at
http://www.preqin.com/go.aspx?lid=1994&uid=224649

Caledonia to start short selling strategies

Caledonia Investments is introducing short-selling within its investment strategies for the first time in its 20-year history, according to the *Australian Financial Review* citing the firm's letter to its investors.

The move 'partly reflects the ongoing impact of disruptive technologies on companies and industries, but more importantly, the fundamental change in the economic backdrop,' according to Caledonia.

The investment company was established in 1992 as a multi-family office for its founders, according to its website. The firm now manages $2 billion for more than 400 investors.

Ascalon buys stakes in two Asian managers

Ascalon Capital Managers (Asia) has formed partnerships with two Asia-based hedge funds. The firm has taken a 30 percent equity stake in Singapore based Canning Park and a 35 percent stake in Hong Kong based Athos Capital.

Canning Park is a long-short equity manager that invests across 10 Asian markets including Australia and Japan. It deploys fundamental analysis with a tactical trading overlay to lower volatility.

The firm was founded in July 2010 by Jason Rich, (ex-Bennelong Asset Management, GLS Capital and Goldman Sachs); David Thompson, (ex-Gartmore Investment Management and Morgan Stanley); and James Hyndes, (ex-Goldman Sachs and Macquarie Bank.)

Athos is an event driven manager founded by Matthew Moskey and Erik Senko (both ex-Omni Asia and Centaurus Capital); and Fred Schulte-Hillen, (ex-Black's Link Capital). The firm plans to launch an event driven fund focusing on the Asia Pacific region.

Ascalon will provide operational, governance and global business development support, as well as capital to both firms. Ascalon is a 100 percent subsidiary of Westpac.

Institutional survey sees reduced appetite for hedge funds

The fifth annual survey of institutional hedge funds conducted by SEI and Greenwich Associates has found that:

- Nearly 38 percent of investors plan to increase their allocations to hedge funds over the next 12 months – down from 54 percent a year earlier.
- Hedge funds represented 16.7 percent of institutional portfolios in 2011, versus 12 percent during the 2008 financial crisis.
- 26 percent of institutional investors said their top challenge in hedge fund investing was meeting performance expectations.
- 40 percent invested solely via single-manager funds, up from 24 percent a year earlier.
- Nearly a third invested in hedge funds for absolute return, while more than half cited risk management reasons such as diversification and lower volatility as the key criteria.
- Respondents earned an average annualized return of 6.2 percent in 2011 versus 9.2 percent in 2010.

Details at
http://www.seic.com/enUS/im/promo/6891.htm?cmpid=im-hf1-fin-12

Seeding platform launched globally by DB and FRM

Deutsche Bank and Financial Risk Management (FRM - $9 billion AuM) have partnered to launch the industry's first hedge fund seeding managed account platform.

The 'dbalternatives Discovery' platform will be based on Deutsche Bank's dbalternatives managed account platform which was established in 2002 and currently has $12 billion under management.

FRM's hedge fund seeding division, FRM Capital Advisors, (FCA) will select and negotiate strategic investments in emerging managers. Deutsche Bank will also raise capital for a seeding fund which will invest in early stage hedge funds selected by FCA. FCA evaluates over 500 seeding opportunities annually through the FRM's global investment team.

Data points to investor wariness

Investor sentiment fell below levels reached during the global financial crisis (GFC), according to CoreData's fourth-quarter Investor Sentiment Report.

The report showed a record low Investor Sentiment Index of -22.4, just below -22.3 reached in the first quarter of 2009. The index, established in 2005, gauges the confidence of 843 people nationwide across demographics, and wealth levels. The survey was conducted during the two weeks to 5 December 2011.

*

Meanwhile, self-managed super funds (SMSFs) allocation to cash increased two percentage points to 26.7 percent in the December 2011 quarter. The allocation is the highest level in two years, according to *Money Management* citing the latest Multiport Investment Patterns Survey.

Alternative assets including hedge funds grew from 0.5 to 1.1 percent of total SMSF AuM. Other asset class allocations included domestic equity (35.4 percent), fixed interest (11.5 percent), international shares (7.9 percent), and property (17.6 percent).

*

Financial planners were also worried, as they placed 28 percent of new client money into cash and term deposits as of November 2011, up from 18 percent in June 2011 and 16 percent in November 2010, according to *InvestorDaily* citing the Investment Trends November 2011 Adviser Product & Marketing Needs Report.

The flow into cash has come at the expense of listed investments and managed funds which fell to 65 percent from 75 percent in June. The Investment Trends report surveyed 966 planners across Australia from October to November. The Report showed that investors expected the benchmark S&P/ASX 200 stocks index to increase by only 3 per cent in 2012.

AMP & ipac to merge research teams, alternatives headed by Tavill

AMP Capital Investors and ipac will combine their manager research teams, according to *InvestorDaily*. The merged 13-strong team will support portfolio managers in the construction and management of diversified multi-manager funds for AMP, Axa, ipac and Tynan Mackenzie.

The alternatives group within the team will be headed by Suzanne Tavill. ipac CIO Jeff Rogers will remain responsible for the ipac, Axa and Tynan Mackenzie portfolios, while AMP Capital's investment director, Sean Henaghan, remains responsible for the AMP Capital multi-manager portfolios, according to *InvestorDaily*.

Blue Sky lists on ASX following $6.47 million IPO

Blue Sky Alternative Investments (ASX: BLA) has listed on the ASX after raising $6.47 million in an IPO. Shares closed on the first day at the $1 IPO price.

The Brisbane based firm has $180 million AuM in a range of private equity, hedge, real estate and commodities (water) funds. The firm is capitalised at $32 million and reported net profits after tax of $3.5 million in the year to June 2011. The IPO funds will be deployed as regulatory capital/cash reserves and to fund business expansion. The firm recently appointed GT Capital Access partner Debra Goundrey as global head of client relationships to work from its new US office, according to *Brisbane Times.*

BLA's directors, staff and related parties will retain over 65 percent of shares on issue. Founder/MD Mark Sowerby holds a 33 percent stake.

New tax rules to be introduced in Australia

The Australian government has announced it will implement the third and final element of an investment manager regime (IMR), which was a key recommendation of the Johnson Report.

The implementation means income, gains or losses, which have an Australian source, from portfolio interests or financial arrangements of a foreign managed fund, will be excluded from the calculation of the fund's taxable income (and that of its non-resident investors).

The exemption will not apply to the extent that withholding tax is currently payable on the income. Furthermore, the exemption will not cover income or gains from an interest, other than a portfolio interest in a publicly traded company, in taxable Australian property.

The exemption will be restricted to foreign managed funds domiciled in countries that are recognized by Australia as engaging in effective exchange of information.

Legislation for the first two stages of the IMR, announced in December 2010 and January 2011 respectively, is currently being finalized and is expected to be introduced into Parliament in the first half of 2012.

Details at
http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/168.htm&pageID=003&min=brs&Year=&DocType

Alternatives asset class still largest in Future Fund's portfolio

The $73 billion Future Fund's alternatives allocation fell to $14.45 billion as at 31 December 2011, from $15.8 billion three months earlier. However, alternatives still make up the largest asset class at 19.8 percent of total AuM. Compared to the September quarter, the biggest change was the rise in cash at the expense of debt securities and alternatives.

The Fund made 1.6 percent in 2011. Since inception in 5 May, 2006, the Fund has generated 4.2 percent p.a.

Portfolio details for the December quarter are below.

Asset class	A$ million	Percentage of Fund*	Percentage in SepQ*
Australian equities	7,898	10.8	10.6
Global equities - Developed markets	11,486	15.7	16.1
Global equities - Emerging markets	3,719	5.1	4.8
Private equity	3,897	5.3	5.0
Property	4,383	6.0	6.3
Infrastructure & Timberland	4,135	5.7	5.6
Debt securities	12,990	17.8	19.2
Alternative assets	14,451	19.8	21.6
Cash	10,111	13.8	10.8
Total Future Fund assets	73,070		

*Data may not sum due to rounding

Industry developments

Zenith Investment Partners has released its equity market neutral report. Five funds were selected to Zenith's approved list. The five were funds offered by Aurora, Bennelong, BlackRock, Pengana, and Regal. Another twelve market neutral funds were researched but were not rated by Zenith.

*

UK pension funds nearly doubled their allocations to hedge funds in the past year, from 2.6 percent to 4.1 percent of AuM, according the UK's *Financial News* citing data from the National Association of Pension Funds. The allocation is marginally less than the 4.3 percent allocated by Australian superfunds. (see Preqin report above).

Applying that percentage across the GBP800 billion run by pension fund members of NAPF suggests total hedge fund allocations would amount to GBP33 billion.

*

Pertrac has released a study of 1,210 Alternative UCITS funds. The top two countries (by location of the underlying management company) were UK (372 funds), and Luxembourg (271 funds). There were no fund management companies from Australia or Japan, nine from Singapore and five from Hong Kong.

Details of the 30 page report is at
http://www.pertrac.com/resources/pertrac-research/the-coming-of-age-of-alternative-ucits-funds/?modal=register%2F%3Freferrer%3Dassets%2FUploads%2FPerTrac-The-Coming-of-Age-of-Alternative-UCITS-Funds-January-2012.pdf

People on the move

HSBC Securities Services (HSS) Australia has hired Cara Brosnan as part of the sales team for fund services and custody. Cara will report to Rob Brown, Head of Client Management Group, Securities Services, Australia. She joined from HSS' London-based client management group, where she was responsible for sales in the fund management and insurance sectors.

*

The Pengana Asian Equities (long/short) fund has been downgraded to three stars by Standard & Poor's following the resignation of senior fund manager/technical analyst Elan Miller. He will be replaced by a new hire, Yan Zhang.

Hatfield's Gadget Corner: Apple, what next?

Apple have been all over the news over recent days. Their recent results were incredible. Dec quarter sales were US$46 billion with US$13 billion in profit. Analyst consensus for sales was $39 billion. They are now sitting on approximately $100 billion in cash! Based on the current all time high of $454.45 the market cap of Apple is approximately $420 billion. Exxon Mobil's market cap is $409 billion and Microsoft is $248 billion.

So the big question is, do you buy Apple shares today and unfortunately the answer is you missed the boat. I bought my first iPod back in 2002 and my first iMac in 2003. Apple shares were trading around the $30 mark versus the current $453. I'm a great believer in "if you love the product, buy the shares"! But at current levels, everyone is buying the product and everyone is buying the shares. The

Apple acolyte websites are tipping $1000 per share! Beyond that the Guardian newspaper is suggesting the world's first trillion dollar company! I think these predictions are way off the mark. There are just so many iPhones and iPads that you can shove down people's throats. To me there is just too much oohing and ahhing about Apple. I think it's herd mentality.

But let's have a look at what is ahead for Apple. I'll summarize the predictions and rumors for 2012.

iPad 3

It looks as if there will be an announcement in February for a March launch. Word around the traps is that iPad 3 will be similar to the iPhone 4 as to iPhone 4S upgrade. I.e. not much difference. iLounge.com believe that they were able to observe one at CES recently. Their observation was that it was slightly thicker.

iPhone 5

There have been reports coming out of Foxconn, the Apple supplier, that iPhone 5 production is already underway suggesting a June release. It is rumored that the phone will be slimmer. It will be compatible with LTE networks. Speculation is that it will use the Qualcomm quad-mode chip. It is also rumored to have a 4 inch screen. Piper Jaffray are suggesting an August release date.

Apple iTV

Bloomberg Business Week reported back in November that Sharp will be the screen supplier for the much anticipated iTV. There are rumors circulating that Apple will launch the iTV in April or May this year. Speculation is that the screen size will be a 42 inch set. Now why would you need an Apple iTV? It has been suggested that the TV will incorporate Siri technology of which I am not a great fan. Siri does not understand Australian. I think we talk too fast. I know what will happen to me, I'll say to my iTV, launch Die Hard 3 and I'll get Sound of Music. However, I have reported previously that once you are caught in the Apple eco system, it is easier to have all of your componentry linked. Yes other vendors could come out with better iPad clones, PCs, and what not, but to have everything seamlessly linked is very convenient. I have been an Apple TV streaming user from day one. I really enjoy renting and streaming stored TV shows from iCloud. It's easy and works a treat but only if everything is Apple. I.e. Airport Extreme as your router, Airplay etc.

iTV, I'm a buyer.

iPods

Last year I mentioned that I picked up a 64 GB iTouch. I love this little unit but I could really do with some extra storage. I would love to see a 250 GB iTouch. I have started to reburn my over 1000 CD library at Apple LossLess. Currently my entire library is at 320 kbps compressed AAC format which is significantly higher than the 256 kbps of the iTunes store quality. I have also subscribed to iMatch and have all my purchased albums and ripped CDs in iCloud for the $25 per year subscription. I have been streaming my iCloud library down through the Apple TV through to my Bose Lifestyle system and it works a treat. Still, I like the idea of a higher capacity iPod for the Lossless format tracks.

So getting back to my original point, forgetting new iMac, MacBooks and other products, are the big ticket revenue generators enough to maintain Apple's upward momentum? I can't see it. I think that there will be some rude shocks this year and you could see some unexpected volatility in Apple's stock price. Would I go short? No way. Trend is your friend. A market has to give an indication of a major change in sentiment or price momentum before you would commit to the short side. Apple breaking into new high territory is not a reason to short. Take profits? Maybe. If you were already in for the ride. This is personal opinion not investment advice!!!

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