

16:15-17:30 - Panel 5 - Longchamp

“Alternative Management: Key Drivers for the Asset Management Industry”



Industry Insight on European Hedge Fund Markets



Sector changes and outlook

Sophie VAN STRAELEN

**Managing Director
Asterias France**

Sector changes

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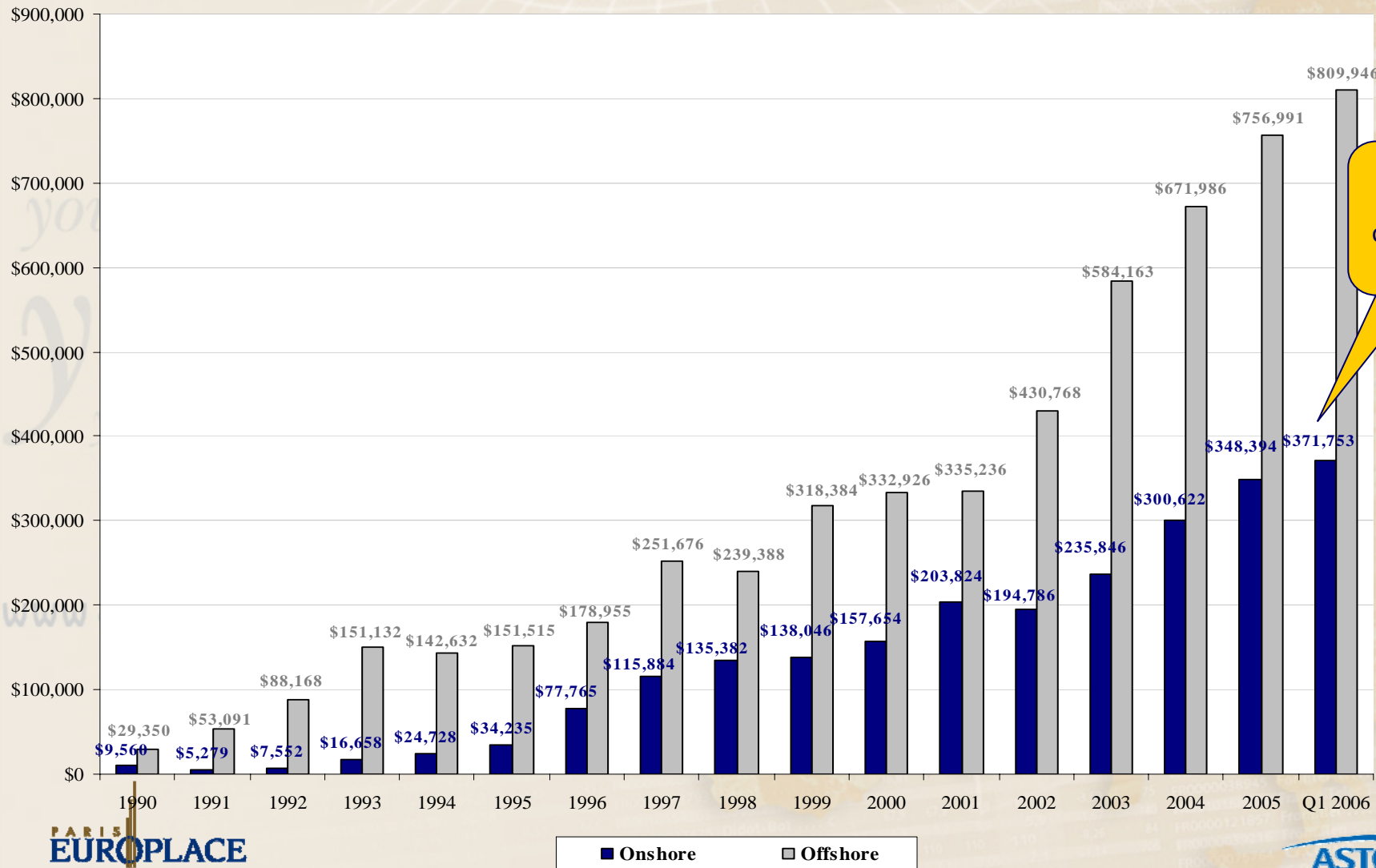
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Assets by registration type (source: HFR)

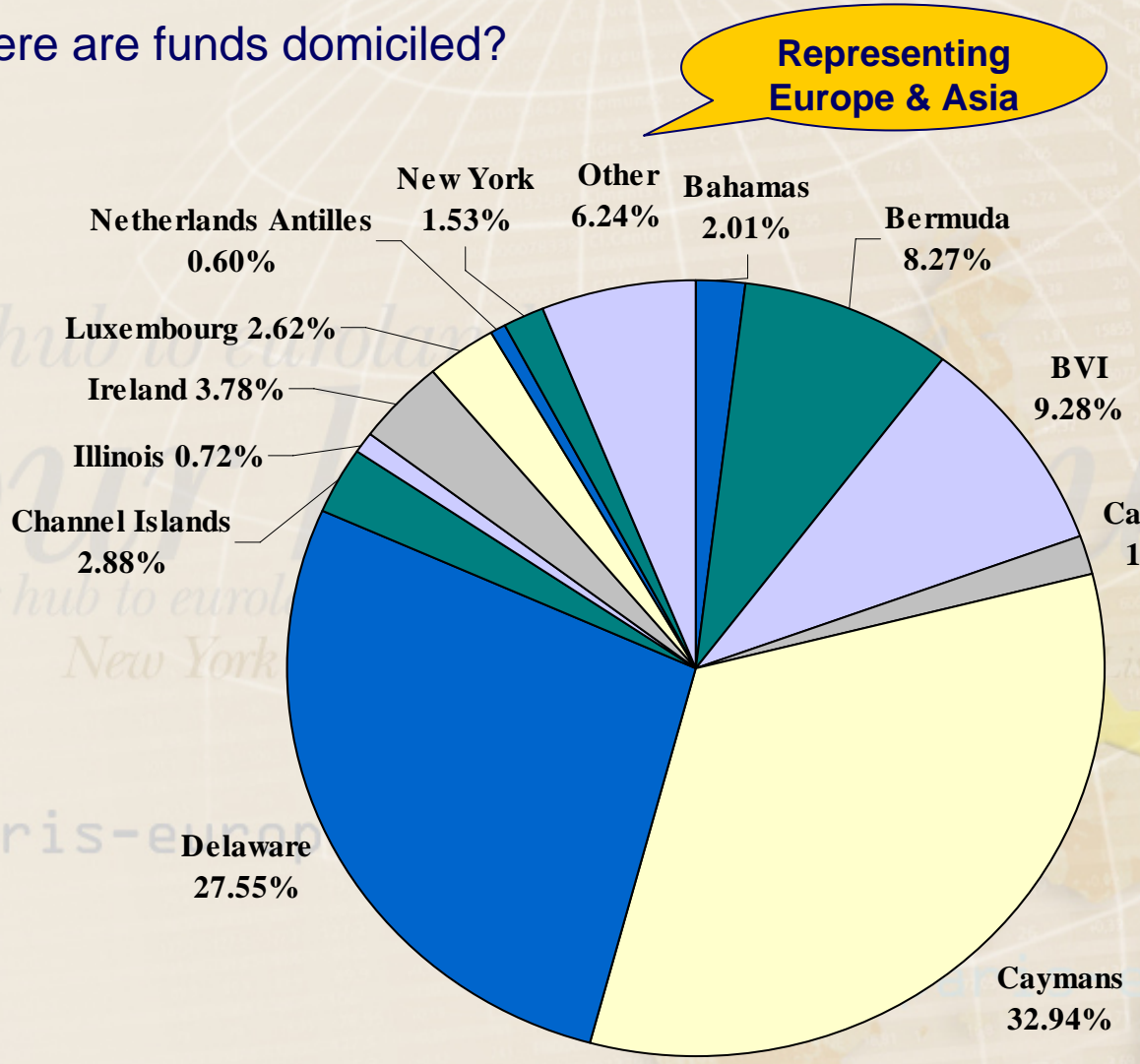
- The proportion of onshore assets is growing:



Potential of 75% onshore in 5Y

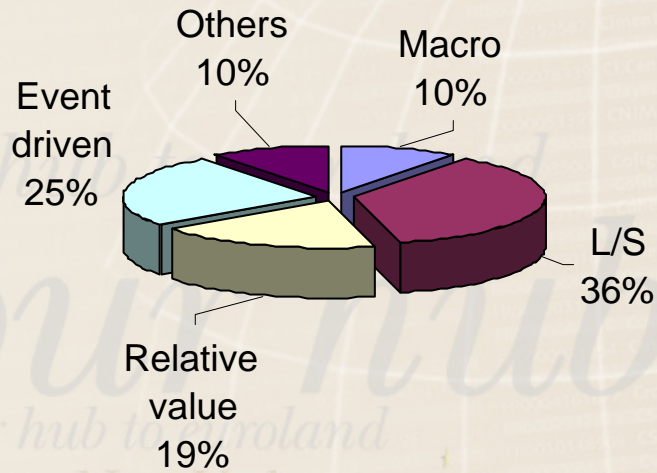
Assets by geographic region (source: HFR)

- Where are funds domiciled?

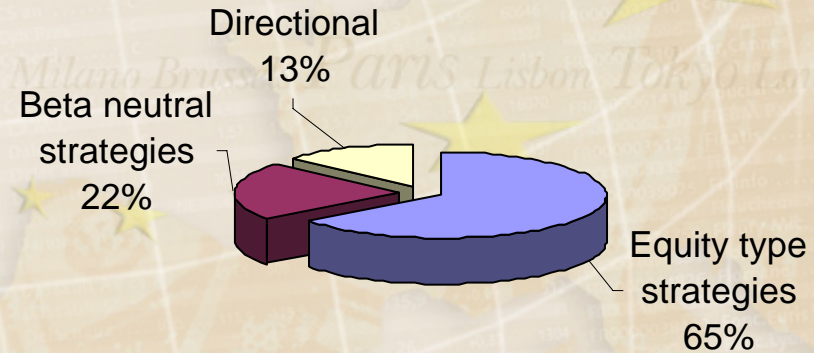


Assets by strategy (source: HFR)

Breakdown by strategy



Breakdown by market exposure





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Liquidity issues

An investment culture clash

	US/UK 	Continental Europe 
Institutional investors	Value LT investments (2 to 5Y)	Value liquid assets (monthly)
Managers	The top quartile apply lock-ups of 2Y	Manage liquidity to match investors' preference
Regulators	Do not regulate funds with lock-ups above 2Y	Value liquidity terms (monthly to daily)
Constraints	An increasing number of funds with lock-ups	Risk of mismatched liquidity
Implications	A market for sophisticated investors	Accessibility to retail?

Capacity issues

- Where can the industry grow?
 - An estimated 15% of “stars” with superior trading skills
 - Not all investors will have access to superior skills
- A potential bubble?
 - Hedge funds represent 4% of the total market cap
 - Hedge funds grow parallel to market cap
 - Hedge funds grow as long as there are inefficiencies to exploit
- New models?
 - The emergence of hybrid funds (traditional and hedge funds)
 - A convergence between private equity and hedge funds

Changes in demand

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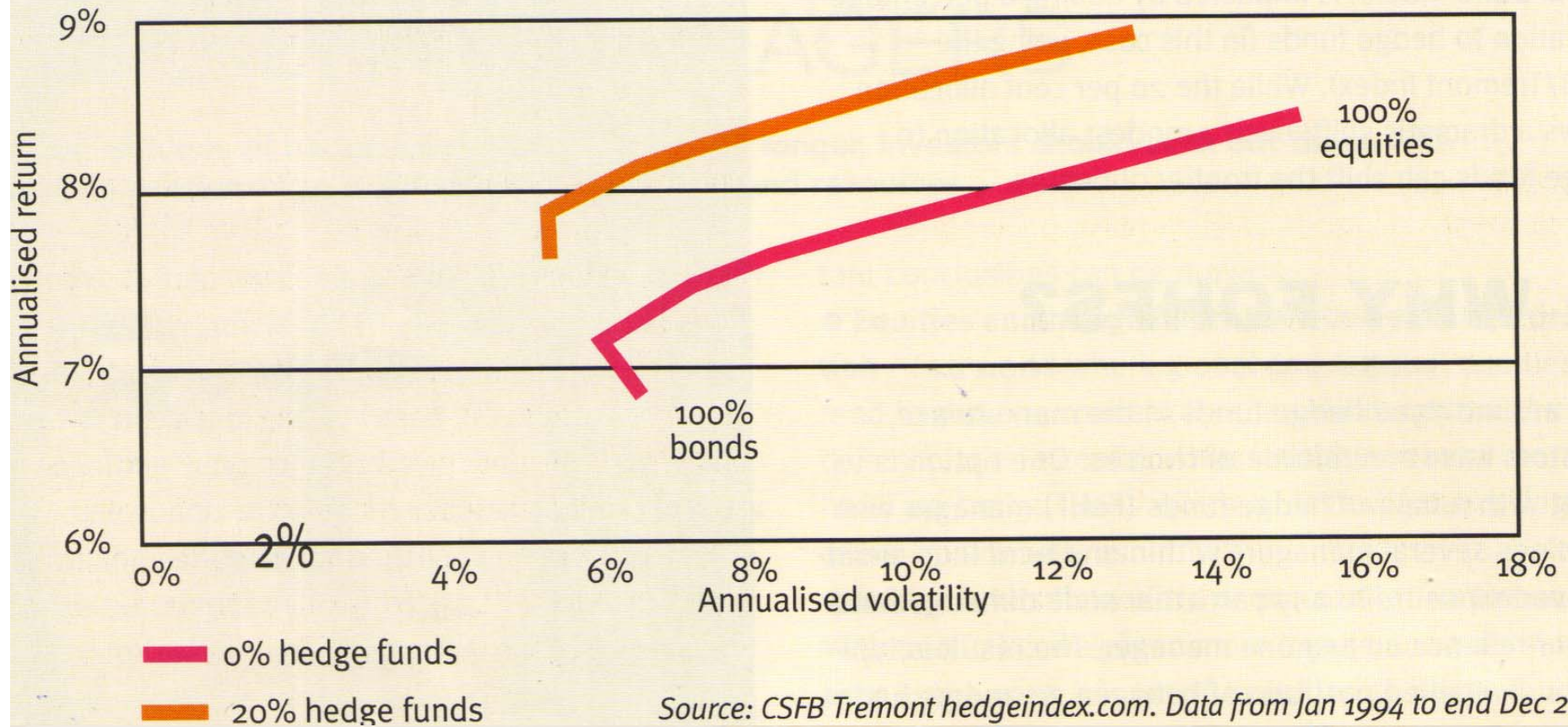
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Academic evidence: an analysis of the efficient frontier



Academic evidence: an analysis of the efficient frontier

- Including hedge funds in an institutional portfolio

DATA FROM JANUARY 1994 to DECEMBER 2004

No hedge funds			
	100% equity	50% bond / 50% equity	100% bond
Return	8.43%	7.64%	6.84%
Volatility	15.19%	8.26%	6.62%
20% invested in hedge funds			
Return	8.91%	8.28%	7.64%
Volatility	13%	7.41%	5.40%
Return improvement (bps)	47.8	64.4	79.9
Volatility improvement (bps)	219.3	85.5	122.5

Source: Pioneer AI and CSFB Tremont

Better risk-adjusted performance

Better risk management

Better diversification

The reality: a patchwork of performance HFRI Indices (1993 – 2005)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
HFRI Macro 53.31%	HFRI Merger Arbitrage 8.88%	HFRI Sector 39.65%	HFRI Sector 30.68%	S&P 500 33.33%	S&P 500 28.59%	HFRI Sector 67.00%	HFRI Merger Arbitrage 18.02%	HFRI Convertible Arbitrage 13.37%	Lehman Gov't/Credit 12.10%	MSCI Indices US World 30.82%	HFRI Distressed Securities 18.63%	HFRI Equity Hedge 10.66%
HFRI Sector 33.71%	HFRI Sector 7.98%	S&P 500 37.54%	HFRI Event- Driven 24.84%	HFRI Equity Hedge 23.41%	MSCI Indices US World 22.79%	HFRI Equity Hedge 44.22%	HFRI Convertible Arbitrage 14.50%	HFRI Distressed Securities 13.28%	HFRI Convertible Arbitrage 9.05%	HFRI Distressed Securities 29.70%	HFRI Event- Driven 14.18%	HFRI Sector 9.37%
HFRI Distressed Securities 32.54%	HFRI Event- Driven 6.00%	HFRI Equity Hedge 31.04%	S&P 500 22.92%	HFRI Event- Driven 21.23%	HFRI Equity Hedge 15.98%	HFRI Fund Comp. 31.29%	HFRI Relative Value Arbitrage 13.41%	HFRI Event- Driven 12.18%	HFRI Macro 7.44%	S&P 500 28.67%	MSCI Indices US World 12.83%	HFRI Fund Comp. 9.35%
HFRI Fund Comp. 30.88%	HFRI Fund Comp. 4.10%	HFRI Macro 29.32%	HFRI Equity Hedge 21.75%	HFRI Macro 18.82%	Lehman Gov't/Credit 12.00%	HFRI Fund of Funds Comp. 26.47%	Lehman Gov't/Credit 13.27%	Lehman Gov't/Credit 9.40%	HFRI Relative Value Arbitrage 5.44%	HFRI Sector 28.36%	HFRI Sector 11.59%	HFRI Distressed Securities 8.44%
HFRI Event- Driven 28.22%	HFRI Relative Value Arbitrage 4.00%	HFRI Event- Driven 25.11%	HFRI Fund Comp. 21.10%	HFRI Fund Comp. 16.79%	HFRI Convertible Arbitrage 7.77%	HFRI Event- Driven 24.33%	HFRI Equity Hedge 9.09%	HFRI Relative Value Arbitrage 8.92%	HFRI Distressed Securities 5.28%	HFRI Event- Driven 25.39%	S&P 500 10.87%	MSCI Indices US World 7.56%
HFRI Equity Hedge 27.94%	HFRI Distressed Securities 3.84%	Lehman Gov't/Credit 22.74%	HFRI Distressed Securities 20.77%	HFRI Merger Arbitrage 15.44%	HFRI Sector 7.62%	MSCI Indices US World 23.54%	HFRI Event- Driven 6.74%	HFRI Macro 6.87%	HFRI Fund of Funds Comp. 1.02%	HFRI Macro 22.02%	HFRI Fund Comp. 8.91%	HFRI Fund of Funds Comp. 7.33%
HFRI Relative Value Arbitrage 27.10%	MSCI Indices US World 3.34%	HFRI Fund Comp. 21.50%	HFRI Merger Arbitrage 16.61%	HFRI Fund of Funds Comp. 16.20%	HFRI Merger Arbitrage 7.23%	S&P 500 21.03%	HFRI Fund Comp. 4.98%	HFRI Fund Comp. 4.62%	HFRI Merger Arbitrage -0.87%	HFRI Equity Hedge 20.54%	HFRI Equity Hedge 7.36%	HFRI Event- Driven 7.07%
HFRI Fund of Funds Comp. 26.32%	HFRI Equity Hedge 2.61%	HFRI Convertible Arbitrage 19.85%	HFRI Convertible Arbitrage 14.56%	HFRI Relative Value Arbitrage 15.93%	HFRI Macro 6.19%	HFRI Macro 17.62%	HFRI Fund of Funds Comp. 4.07%	HFRI Fund of Funds Comp. 2.80%	HFRI Fund Comp. -1.45%	HFRI Fund Comp. 19.62%	HFRI Fund of Funds Comp. 6.67%	HFRI Macro 6.93%
MSCI Indices US World 20.38%	S&P 500 1.32%	HFRI Distressed Securities 19.73%	HFRI Relative Value Arbitrage 14.49%	HFRI Distressed Securities 15.40%	HFRI Relative Value Arbitrage 2.81%	HFRI Distressed Securities 16.94%	HFRI Distressed Securities 2.78%	HFRI Merger Arbitrage 2.76%	HFRI Event- Driven -4.30%	HFRI Fund of Funds Comp. 11.53%	HFRI Relative Value Arbitrage 5.29%	HFRI Relative Value Arbitrage 6.29%
HFRI Merger Arbitrage 20.24%	HFRI Fund of Funds Comp. 3.48%	MSCI Indices US World 18.70%	HFRI Fund of Funds Comp. 4.39%	MSCI Indices US World 14.16%	HFRI Fund Comp. 2.62%	HFRI Relative Value Arbitrage 14.73%	HFRI Macro 1.97%	HFRI Equity Hedge 0.40%	HFRI Equity Hedge -4.71%	HFRI Convertible Arbitrage 9.63%	Lehman Gov't/Credit 4.54%	HFRI Merger Arbitrage 5.69%
HFRI Convertible Arbitrage 15.22%	HFRI Convertible Arbitrage -1.73%	HFRI Merger Arbitrage 17.86%	MSCI Indices US World 1.73%	HFRI Convertible Arbitrage 12.72%	HFRI Event- Driven 1.70%	HFRI Convertible Arbitrage 14.41%	HFRI Sector 0.31%	HFRI Sector -4.90%	HFRI Sector -12.85%	HFRI Relative Value Arbitrage 9.02%	HFRI Macro 4.09%	S&P 500 4.91%
Lehman Gov't/Credit 13.20%	Lehman Gov't/Credit -4.73%	HFRI Relative Value Arbitrage 15.66%	HFRI Macro 9.32%	Lehman Gov't/Credit 9.87%	HFRI Distressed Securities -4.23%	HFRI Merger Arbitrage 14.34%	S&P 500 -9.09%	S&P 500 -11.85%	MSCI Indices US World -21.06%	HFRI Merger Arbitrage 8.12%	HFRI Merger Arbitrage 4.09%	Lehman Gov't/Credit 2.55%
S&P 500 10.05%	HFRI Macro -4.30%	HFRI Fund of Funds Comp. 11.10%	Lehman Gov't/Credit 3.35%	HFRI Sector 5.21%	HFRI Fund of Funds Comp. -5.11%	Lehman Gov't/Credit -2.40%	MSCI Indices US World -14.07%	MSCI Indices US World -17.83%	S&P 500 -22.09%	Lehman Gov't/Credit 5.07%	HFRI Convertible Arbitrage 1.07%	HFRI Convertible Arbitrage -1.94%

Main difficulties faced by institutional investors

Regulations & eligibility

Liquidity and risk

Misconceptions about risk (market, liquidity, credit, human, operational)

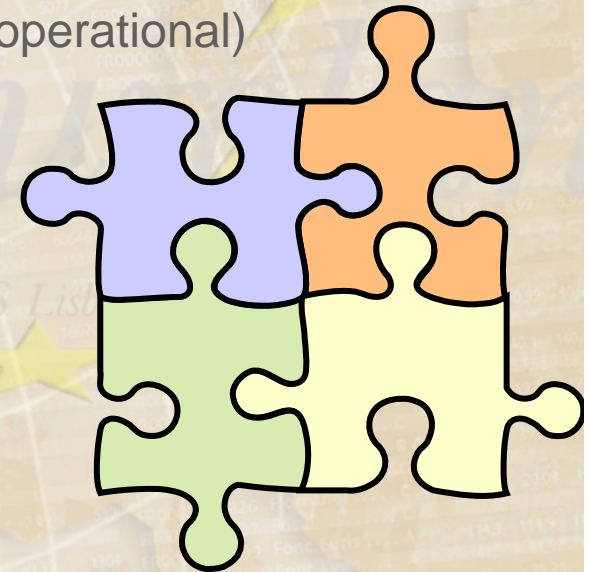
Transparency: where to find the appropriate managers?

No real benchmarking

Impact on an institutional portfolio?

Alpha benefits versus beta benefits

Career risk



Strategic decisions for an investor

Why do I want to invest in hedge funds?

What are my objectives? Time horizon?

Which type of products? Funds of funds or single managers?

Who will select the managers? Will it be done internally? Externally?

Do I need to train my employees (analysts, back-office)?

Conclusion: Outlook

In 5 years time?

- The future depends on:
 - Changes in global regulations
 - Institutional demand for hedge funds
- Some convergence between active long only management and hedge fund equity strategies
- A growing retail market (?)
- Hedge funds as entrepreneurs vs. financial institutions (?)



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