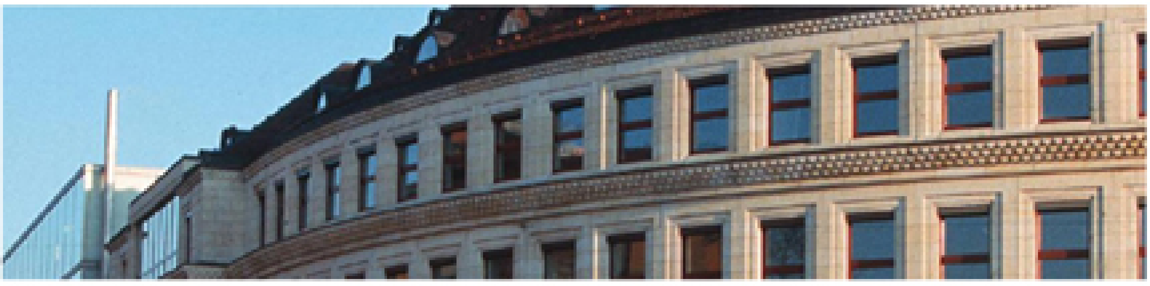
Swiss Funds of Hedge Funds: Structure, Evolution and Performance



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Swiss Funds of Hedge Funds:

Structure, Evolution and Performance

Preface

This report takes a look at the landscape of Swiss funds of hedge funds (FoHF) in the aftermath of the financial crisis. Since April/May 2007, when the Centre Alternative Investments & Risk Management compiled the first comprehensive study about the Swiss funds of hedge funds market, the industry has changed substantially. Nevertheless, we estimate that Swiss FoHFs still represent 25% to 30% of the global market.

The basis of this report is the web portal hedgegate (www.hedgegate.com) which has established itself as THE information platform for Swiss funds of hedge funds. hedgegate has been authorized by Finma as an official publication organ for NAVs.

hedgegate covers nearly all Swiss registered FoHFs. Thus in this report we concentrate on this segment. Over the last two years the coverage of offshore funds has intensified, but is not yet broad enough to be included.

This comprehensive report was made possible with a dedicated financial contribution from ABS Investment Management, and also by the persistent support from the 15 leading Swiss FoHF providers and the members of the Transparency Council FoHF (TCF). Our special thanks are addressed to these institutions and their generousness to support our efforts to do research and to improve the transparency in the FoHF area in the interest of the public and the end investors.

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Abbreviations

AG	Swiss Stock Corporation
AIMA	Alternative Investment Management Association
AuM	Assets under management
CISA	Collective Investment Schemes Act
CISO	Swiss Collective Investment Schemes Ordinance by the Federal Council
CTAs	Commodity Trading Advisor (hedge fund strategy). CTA's generally trade commodity futures, options and foreign exchange
Finma	Swiss Financial Market Supervisory Authority FINMA
FoHF	Fund of Hedge Funds
FSA	UK's Financial Services Authority
FCP	Investment Fund with a Variable Number of Units
HFR	Hedge Fund Research
KAG	Kapitalanlagegesetz (Swiss Federal Act on Collective Capital Investments)
NAV	Net Asset Value
SFA	Swiss Funds Association
SICAF	Société d'Investissement à Capital Fixe (Investment Company with Fixed Capital)
SICAV	Société d'Investissement à Capital Variable (Investment Company with Variable Capital)
SMHF	Single Manager Hedge Funds
SIX	Swiss Exchange (Schweizer Börse)
SIC	Swiss investment company
SIF	Specialized investment fund
TCF	Transparency Council FoHF
UCI	Undertakings for collective investment
UCITS	Undertakings for Collective Investment in Transferable Securities (EU directives regarding the free operation of collective investment schemes within the EU)

Executive Summary

In the wake of Switzerland's early start in the hedge fund business, over the past three decades the FoHF industry has developed into a major industry. Since April/May 2007, when the Centre Alternative Investments & Risk Management compiled the first comprehensive study about the Swiss funds of hedge funds market, the industry has changed substantially. Nevertheless, **we estimate that Swiss FoHFs still represent 25% to 30% of the global market.** Foreign funds represent nearly 50% of Swiss registered FoHF assets. Their preferred fund domicile is Luxembourg (59% of AuM).

Since 1996, the number of funds has been steadily growing, reaching 313 as per year-end 2008, thus nearly trebling within four years. As a result of the increasing number of liquidations, the number of funds decreased by 7% in Q1 2009. The financial crisis, and even more so the Madoff scandal, have had a major impact on the setup within the community of funds of hedge funds providers, especially in Geneva. Within two years, 70% of the names in the list of the "Top Ten" FoHF providers have changed.

78% of Swiss FoHFs are broadly invested in different strategy classes: diversified FoHFs distribute their assets over the strategy classes of relative value, directional and event-driven. They represent THE typical investment style selected by the overwhelming majority of Swiss FoHF fund managers.

Swiss investment companies have suffered from deep price discounts to NAV: On December 31, 2008, discounts varied from 7% to 48%. The market share of the three investment companies launched back in 1996 has dropped from 40% in January 2001 to 6% now.

There is a strong correlation between the asset size of the funds and their age: funds aged more than 12 years tend to be far bigger in terms of client assets (average AuM size as per year end 2008: USD 262 mn) than funds where the inception date was only five to eight years ago (average AuM size: USD 139 mn).

The typical fee structure for Swiss FoHF follows the "1.6%/10%" formula: 80% of Swiss FoHF adopting this formula are charging a management fee of a maximum of 1.6% and a performance fee of a maximum of 10%. 26% of all master FoHFs are not charging any performance fee at all and another 48% are charging a performance fee of 10% rather than 20% as in the case of single manager hedge funds. Thus we assume that the business models of Swiss FoHFs are more sustainable than those of some of their global peers. With three-quarters of Swiss FoHF using a high watermark, the way back to the high watermark will be a long one, however.

At nearly 73% of all master funds investors have to wait 65 days or longer until they can reach the exit: Redemptions have primarily come from private investors and their intermediaries, while net outflows from institutional investors have remained rather small. The pace of liquidations among Swiss FoHF has accelerated in December 2008 and even more so in January 2009.

Net asset outflows for 2008 have eroded all the net inflows achieved in 2007: despite the sizeable net inflows in the first quarter of 2008, net outflows for 2008 as a whole amounted to USD 8.7 bn, or to more than 20% of year-end assets for 2007. Net outflows for January 2009 accelerated to USD 7.2 bn, which might essentially be interpreted as the result of the Madoff scandal. However, in March 2009, net outflows started to slow down substantially, amounting to a moderate USD 180 mn.

Redemptions have come primarily from private investors and their intermediaries. Many FoHFs with a more private-banking type of client base were required to put in redemptions, as they themselves experienced redemptions from their clients.

The high retailization level of the Swiss FoHFs is reflected in the low level of minimum investment size. The exodus of private investors has initiated the acceleration of the institutionalization of the hedge fund industry, both nationally and globally. This might lead to a higher demand for transparency.

The worst-performing Swiss FoHF had about the same returns as the world equity index for the last 36 months, and almost all of the FoHF have lost less or have even recorded positive returns.

Holding illiquid assets in a standard hedge fund portfolio can be a real problem when investors liquidate their position. As a result of the prohibitive regulation, hardly any Swiss registered funds have set up side pockets.

The pace of liquidations of Swiss FoHF has accelerated in December 2008. Reichmuth Matterhorn which had been a successful fund of hedge funds for over 11 years before suffering from Madoff-related problems, had announced its liquidation as per year-end 2008. As a result, 50% of the USD 7.2 bn net outflow within the FoHF industry recorded in Q1 2009 was due to this one particular liquidation. In the meantime, Reichmuth Matterhorn has already conducted its first partial repayment, of approximately half of the fund volume, up to the end of April 2009. A glance at the liquidations that have been announced shows that the Madoff effect might continue to take its toll for a while.

However, there have also been **fund launches in Q1 2009**. Lombard Odier announced the re-launch of six new products, with the total AuM amounting to over USD 800 mn (estimate).

Industry talk regarding regulation has turned from "if” to "what, how and when”: on April 29, the EU unveiled its proposals for regulating hedge funds and private equity. The Swiss Funds Association SFA supports pragmatic solutions in coordination with international organizations.

Historically, large hedge fund drawdowns have offered good entry levels: in the past, the HFRI Fund of Funds Composite Index has picked up perceptibly after a poor year.

I. Data Base - hedgegate

The basis of this report is the web portal *hedgegate* (*www.hedgegate.com*) which has established itself as THE information platform for Swiss funds of hedge funds. *hedgegate* has been authorized by Finma as an official publication organ. hedgegate covers nearly all Swiss registered FoHFs. Thus in this report we concentrate on this segment.

Over the last two years, the coverage of funds for qualified investors has intensified, but is not yet broad enough to be included. The CISA draws a distinction between retail funds open to the public and funds for qualified investors. Public advertising is defined as any advertising aimed at the public. If advertising is aimed at qualified investors, it is not deemed to be public.

The hedge fund universe is a heterogenous entity of funds, which chase different strategies and invest in a variety of financial assets. A classification of hedge funds is therefore complex. Mainly, there are three core strategies:

- Relative Value: market neutral strategies: Exploitation of temporary mispricing of assets, while the market risk is widely eliminated.
- Event Driven: Hedge fund managers try to adopt information about announced or expected economic- or corporate events to profitable portfolio strategies. The hedge funds exploit price inefficiencies of financial instruments in the course of mergers and acquisitions, reorganizations or management buyouts.
- Directional: Equity long/short, managed futures and global macro hedge fund managers take directional bets on financial markets.

Hedgegate differentiates between four strategy classes for funds of hedge funds:

- Focussed non-directional
- Focussed directional
- Diversified
- Funds of Funds of Hedge Funds (F3)

The classification is based on investment guidelines in the offering memorandum or on asset allocation indications in the various fact sheets: a maximum of 5% of a fund's assets can be invested in another class in order to be classified as 'focussed'.

Classification scheme FoHFs

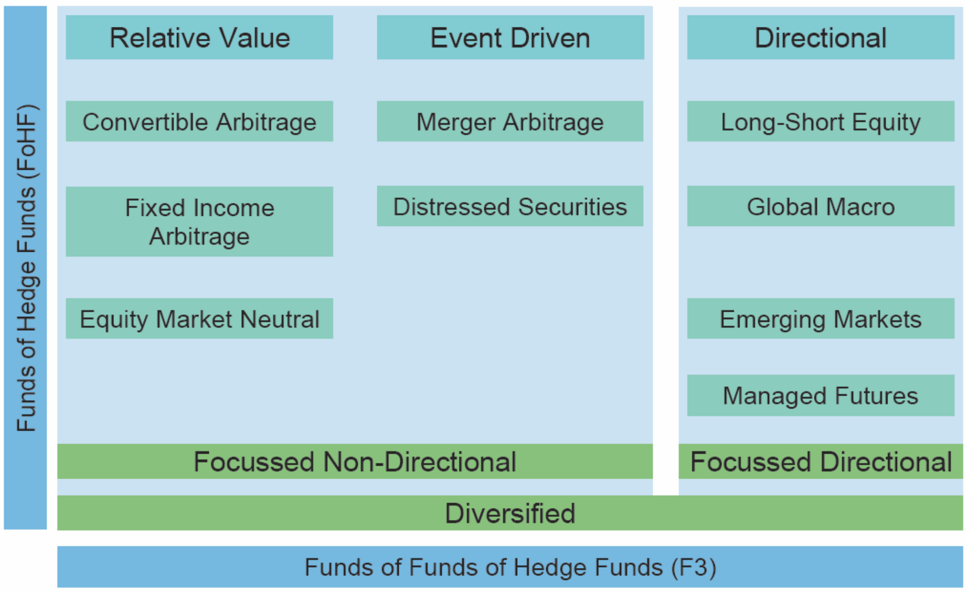


Fig. 1

Since 1996, the number of funds (excl. products for qualified investors) has been steadily growing and reached 316 as per year-end 2008, thus nearly trebling within four years. As a result of the growing number of liquidations, the number of active funds decreased by 7% in Q1 2009. Looking at the database as a whole, and thus including FoHF for qualified investors, the data universe consisted of 458 active funds on March 31, 2009.

Number of funds of hedge funds (FoHF)	**Dec 04**	**Dec 05**	**Dec 06**	**Dec 07**	**Dez 08**	**March 31, 2009**
Swiss registered FoHF	102	107	158	244	308	284
Investment foundations	0	1	6	5	4	4
Investment companies	7	7	6	6	4	4
FoHF for qualified investors	52	63	98	116	178	166
TOTAL active funds	161	178	268	371	494	458
TOTAL funds in database (incl. liquidated FoHF)				480	633	639
Strategy						
Diversified	99	106	159	255	361	344
Focussed directional	41	48	79	88	101	84
Focussed non-directional	21	24	30	28	24	22
Funds of funds of hedge funds (F3)					8	8

Tbl. 1

Funds, which are broadly invested in different strategies, represent THE typical investment style selected by the overwhelming majority of Swiss FoHF fund managers.

The Database consists of the following product categories:

- Approved domestic funds in Switzerland (other funds with special risk)
- Foreign funds allowed to be distributed in Switzerland (other funds with special risk)
- Investment companies (traded at the Six Swiss Exchange)
- FoHFs for qualified investors (not allowed for distribution in Switzerland)

The datamodel of hedgegate is separated into three hierarchical levels for the purpose of presenting the fund-constructs of the fund provider:

- At the lowest level the fund of hedge fund products represent the basis. A fund of hedge funds is clearly defined by its name and its currency.
- However, some products are available not only in one, but in several investment currencies. This is called a master/feeder construct. All funds are invested and managed according to a defined strategy in a master-portfolio. The base-currency, respectively the investment currency is mostly the USD.
- The other currency classes of the product (e.g. Swiss Francs or Euro) then serve as feeder funds for the master-portfolio, i.e. the corresponding funds are exchanged into the currency of the master-portfolio and invested according its strategy. The exchange rate risk is mostly fully hedged.

II. Universe of FoHF in Switzerland

1. Industry overview

Key trends in the global hedge fund industry in 2008

In spite of tumbling asset prices and redemptions, as per year-end 2008 global hedge fund assets were over70% higher than five years ago.

Based on the HFR Research database, the hedge fund industry has shrunk by 9% to 9,176 funds in a tumultuous year. The moderate decrease in the number of funds is in a certain contrast to the development of fund assets, which can be explained by the negative performance, on the one hand, and substantial redemptions, on the other hand. Nevertheless, as per year-end 2008, the number of funds within the industry was still 46% above the 2003 level, and fund assets were over 70% higher than five years ago.

Industry assets dipped 24% year-on-year to USD 1.4 trillion.

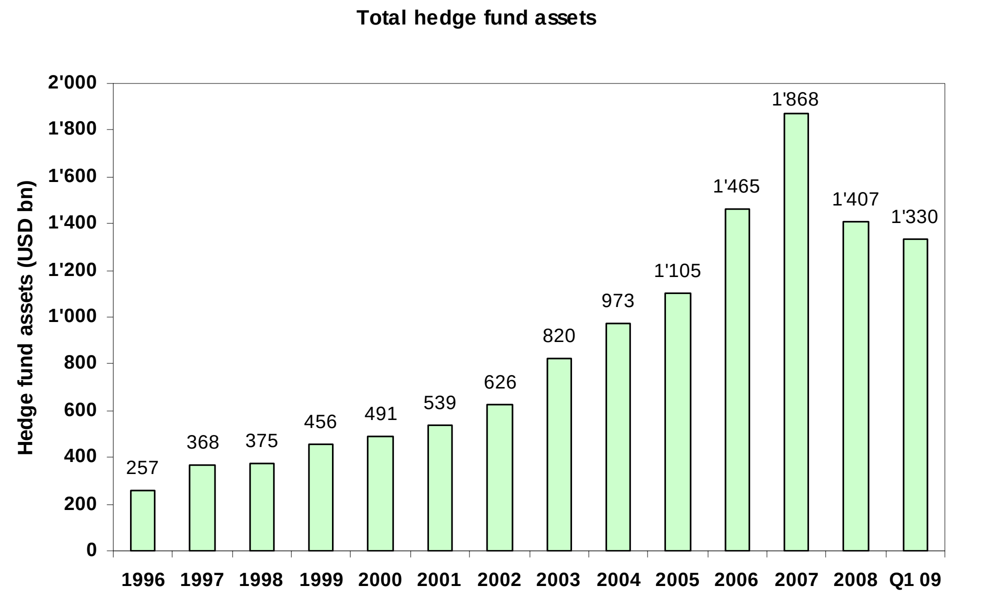


Fig. 2 Source: Hedge Fund Research, HFRI Research

First positive signs in the first quarter 2009

In the first quarter 2009 the HFRI Fund Weighted Composite Index recorded a gain of 0.53%, thus slightly outperforming the hedgegate Swiss FoHF Index (down a marginal 0.08% quarter on quarter). The performance-based gain of USD 28 bn compares to a performance-related loss of over USD 162 bn. Assets invested in FoHF declined to just over USD 525 bn, which is USD 300 bn below the peak.

The first quarter of 2009 managed to re-establish some confidence to the industry. This development is particularly encouraging during a period when global equities continued to report losses again: The global equity market, as measured by the MSCI World Index, declined 11.78% during the first quarter. The impressive rebound staged by the U.S. equity market during March (8.76% S&P 500 Index return) wasn't enough to save what ended up as a challenging and volatile 3-month period for equity investors. In the first quarter, the broad market as represented by the S&P 500 Index fell 11.01%.

2. Swiss FoHF market in an international context

As a result of Switzerland's rather decentralised structure, the domestic hedge fund industry is concentrated in three centres spread over the country. The two largest ones are Geneva, Nyon and Lausanne in French-speaking Switzerland and Zurich, Pfäffikon and Zug in the German-speaking region. Lugano in the Italian-speaking region has expanded by attracting a growing number of single manager hedge funds. Funds of hedge funds have a long-standing tradition in Switzerland, operating through 300 to 500 companies.

We estimate that Swiss FoHFs still represent 25% to 30% of the global market

In the wake of Switzerland's early start in the hedge fund business, over the past three decades the **FoHF industry** has developed into a major industry. Since April/May 2007, when the Centre Alternative Investments & Risk Management compiled the first comprehensive study about the Swiss funds of hedge funds market, the industry has changed substantially. Nevertheless, we estimate that Swiss FoHFs still represent 25% to 30% of the global market, as described on page 5. As per year-end 2008, five of the ten largest funds of hedge fund managers have been domiciled in Switzerland.

However, with assets under management of an estimated USD 12 bn as per year-end 2008, Switzerland does not yet play a significant role as a location for **single manager hedge funds (SMHF)**. According to the EuroHedge database, as per mid-year 2008, Switzerland ranked as the second largest SMHF market in Europe: London continues to dominate the European hedge fund industry, with the market share of assets managed from the UK standing at almost 80%. Switzerland claims a market share of over 3%, close to France. The big majority of funds, however, albeit managed or advised out of Switzerland, are domiciled abroad, predominantly in the Cayman Islands.

The relevant Swiss legal and **regulatory framework** governing hedge funds is the Collective Investment Schemes Act of 23 June 2006 (CISA), which entered into force on January 1, 2007. CISA has introduced new legal forms for collective investments which might be suitable vehicles for hedge funds (SICAV, SICAF and the partnership for collective investments). However, due to the relatively strict rules with regard to investment restrictions, Switzerland has continued to face regulatory disadvantages relative to traditional hedge fund jurisdictions such as the Cayman Islands. The main obstacle is tax related, as Swiss collective investment schemes are as a rule subject to a 35% withholding tax on any income.

III. Structure and Evolution of the Swiss FoHF Industry

1. Legal form

From 1996 to 2003, the landscape of Swiss FoHFs was divided into three major slots: foreign funds, Swiss funds and investment companies. However, in the wake of the strong recovery of financial markets that started in 2003, the supply and volume of FoHFs have grown substantially. As a result, foreign funds have appreciated over-proportionally.

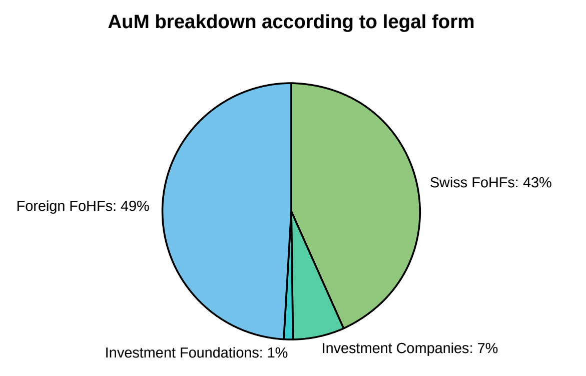


Fig. 3

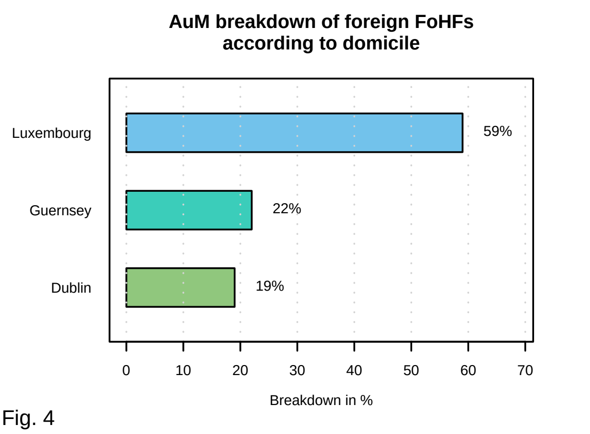


Fig. 4

Foreign funds represent nearly 50% of Swiss FoHF assets, with Luxembourg representing THE preferred domicile

As the two graphs above illustrate, foreign funds represent nearly 50% of industry AuM, against 43% in Swiss FoHFs. Their preferred fund domicile is Luxembourg (59% of AuM), followed by Guernsey (22%) and Dublin (19%). This does not come as a major surprise: Luxembourg represents Europe's number one investment fund centre, and the world's leading hub for global distribution. Luxembourg was also the first EU member state to adapt its legislation to UCITS (Undertakings for Collective Investment in Transferable Securities) which proved to be a competitive advantage of being the first to offer investment funds with the European passport for cross-border distribution.

This setup is in sharp contrast to the development in the offshore funds market, which has seen rapid growth. Here, the Cayman Islands (over 75% of the world's hedge funds are domiciled in this jurisdiction), the British Virgin Islands and Bermuda have become the pre-eminent jurisdictions for the establishment of hedge funds.

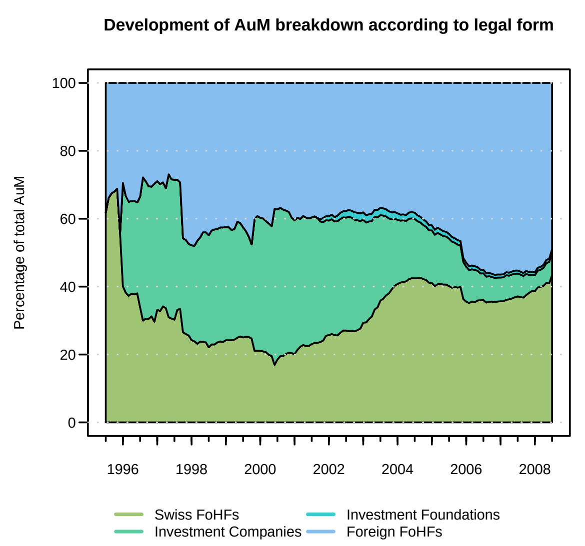


Fig. 5

The three investment companies launched back in 1996 - *creInvest AG, Castle Alternative Invest AG, Altin AG* - and *Absolute Invest AG* (launched in 1999) are all listed on the Swiss Stock Exchange. As per year-end 2008, they represented 6% of Swiss industry assets. This represents a sharp loss of market share, since as recently as at the start of 2001 investment companies represented over 40% of industry assets.

Swiss investment companies have suffered from exceptional price discounts to NAV

Comparing the four listed investment companies, it is quickly seen that their NAV differs substantially from the stock price. On December 31, 2008, discounts varied from 7.5% to 47.7%. The chart below sets out the discounts for all four companies from January 2002 to December 2008. *creInvest* has been able to hold its stock at a constant discount – something that is in complete contrast to the three other companies. Although the time period lasting from 2002 – 2007 was characterized by a relatively low volatility in those spreads, the current economic crisis let the stock prices of the remaining companies slip away. The stabilization of the financial markets might ultimately bring the spreads back to their pre-2008 levels, as long as the companies' holdings remain solvent.

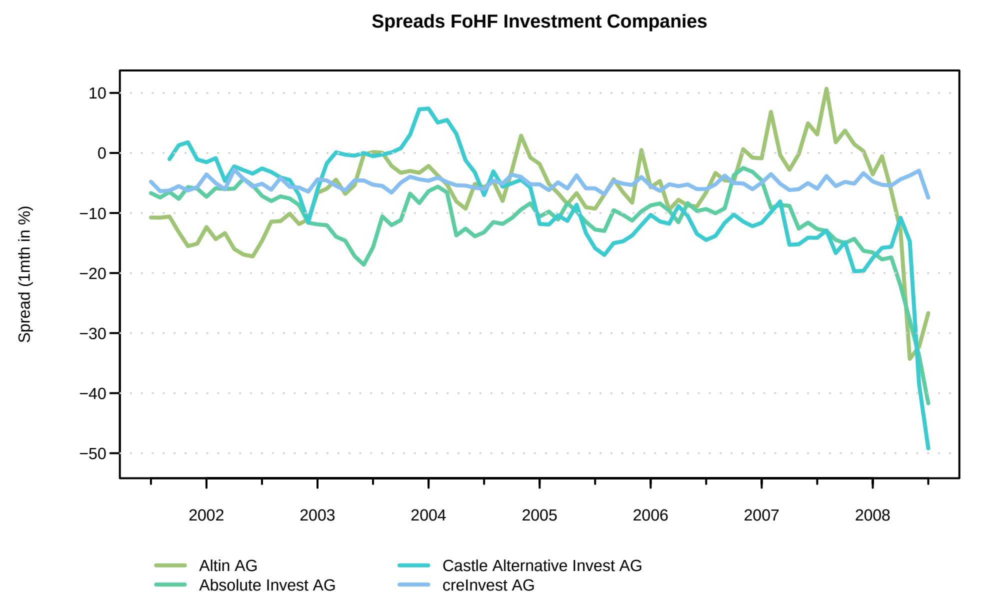


Fig. 6

2. Assets under management

The USD is by far the dominant currency class, representing 82% of master FoHF assets

The US dollar is the main currency class for funds of hedge funds, representing 44% of total AuM as per year-end 2008, followed by the Euro (30%) and the Swiss Franc (26%). In addition to the three major currencies of USD, EUR and CHF, there are also minor activities in the currency classes of GBP and Yen: Three funds specialized in Japanese investments operate with the reference currency Yen, the most sizeable among them being the Galileo Japan Fund. The GBP currency class is dominated by two products from the same provider, the HSBC GH Fund and the HSBC Trading AdvantEdge Fund.

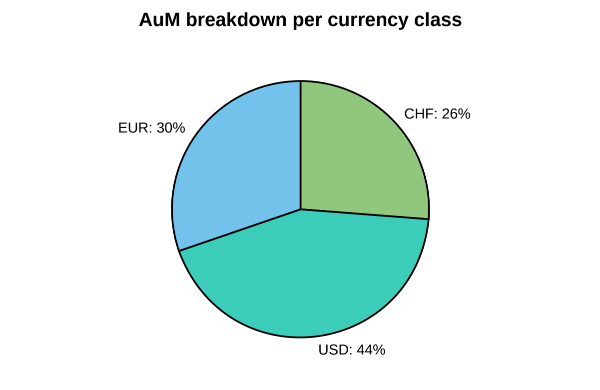


Fig. 7

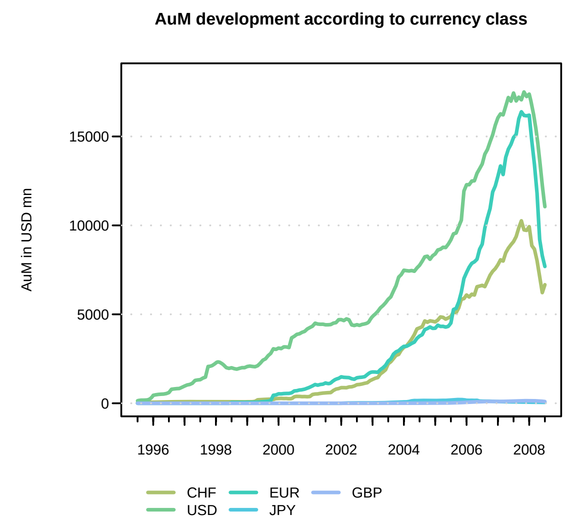
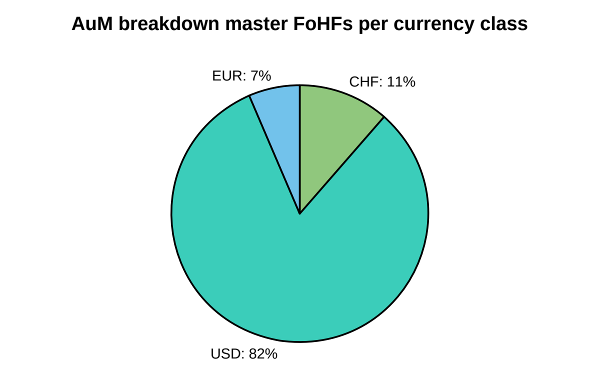


Fig. 8

The picture changes substantially if the analysis is compiled on a master-fund basis. Among the master funds registered in Switzerland, the US dollar is clearly the dominant currency class offered, representing 82% of industry assets.



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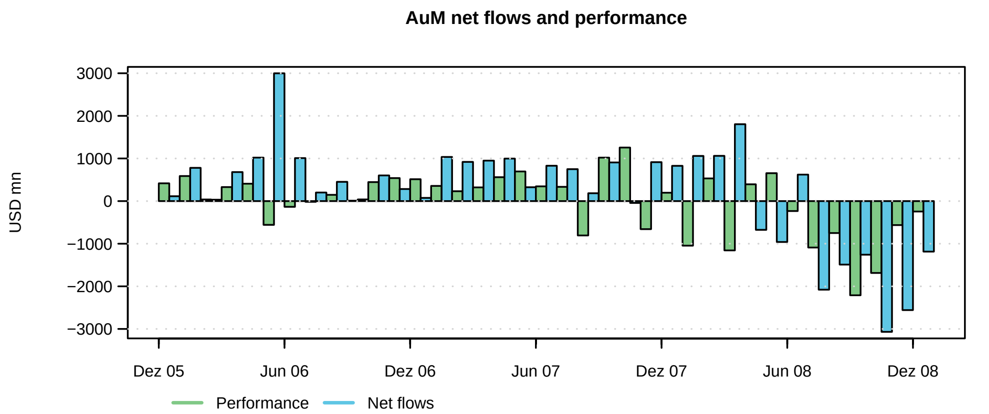

Fig. 10

<u>Global hedge fund industry 2008: the largest net capital redemption in history</u>

2008 has been a tough year for hedge funds worldwide. The industry saw the first significant net outflows during almost 20 years. According to the HFR Research database 25%, or USD 461bn, has been shaved off the total value of global hedge fund assets. Industry assets have dipped again below their December 2006 level of USD 1.5 trillion in December 2008, to USD 1.4 trillion. Investment losses accounted for USD 307bn of the decline, while net asset outflows from fund liquidations and investor redemptions made up the balance of USD 154 bn. Outflows accelerated in Q4 2008, reaching USD 152 bn. The development in 2008 contrasts with 2007, when industry assets grew by USD 208 bn due to performance, and another USD 195 bn through net inflows.

According to Hedge Fund Research, in Q1 2009 investors have pulled out another USD 103 bn, which represents 7.3% of industry assets. At least this figure did not exceed the record outflow recorded in Q4 2008 of over USD 152 bn. Withdrawals from FoHFs amounted to USD 85 bn, thus exceeding the Q4 2008 figure of USD 50 bn.

<u>Swiss FoHF industry</u>

Net outflows in 2008 have eroded all net inflows achieved in 2007

Flows are correlated to returns. In the Swiss FoHF industry in the fourth quarter of 2008, investors have withdrawn an estimated USD 6.6 bn, corresponding to 18.9% of fund assets as per the end of the third quarter of 2008. Despite the sizeable net inflows in the first quarter of 2008, net outflows for 2008 as a whole amounted to USD 8.7 bn, or to more than 20% of the year-end assets for 2007. This corresponds precisely to the record net inflows achieved by the Swiss FoHF industry in 2007 alone.

The breakdown of the AuM decrease for 2008 reveals that, with a setback of USD 8.7 bn, net outflows outpaced the negative performance, amounting to USD 7.3 mn (see figure 10).

In January 2009 net outflows for Swiss FoHFs even exceeded those of Q4 2008

Net outflows for January 2009 accelerated in an unprecedented way: at USD 7.2 bn they even exceeded the level of the outflows experienced in the fourth quarter of 2008, which might essentially be interpreted as the outcome of the Madoff-scandal. As a result, within just a single month, the assets of the Swiss funds of funds industry have decreased by another 28%, thus reaching a level last seen in December 2005. Even when adjusted for one major non-recurring item, (the "Matterhorn" fund of funds is currently in the process of liquidation, with the assets concerned representing approximately half the monthly outflow), the development in January 2009 still represented the worst month ever experienced in terms of net asset flows for the Swiss FoHF industry. However, in March 2009, net outflows started to slow down substantially, amounting to a moderate USD 180 mn.

3. Number of funds

Since 1996, there has been a steady growth in the number of funds to 316 as per year-end 2008, thus nearly trebling within four years.

There had been a temporary standstill in September 2006, which, after only one quarter, was followed by renewed growth, albeit with a much lower momentum. Since year-end 2006, there has again been decent momentum in EUR funds (+10%) and CHF funds (+7%), whereas USD funds have gained only 1%. USD funds have always been able to stay ahead of funds denominated in EUR, with the gap staying pretty much unchanged.

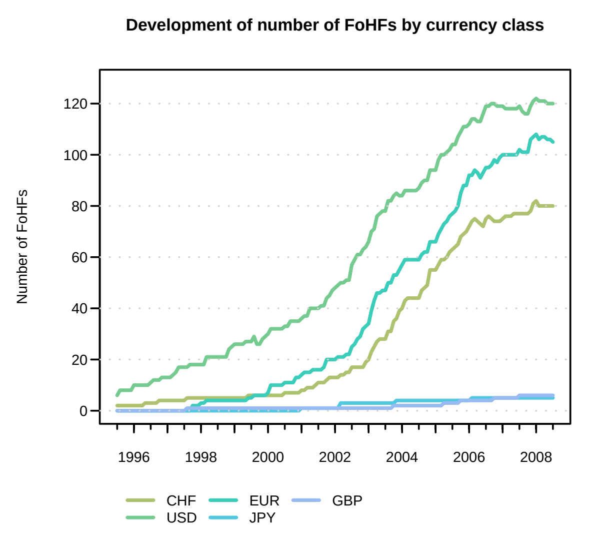

Fig. 11

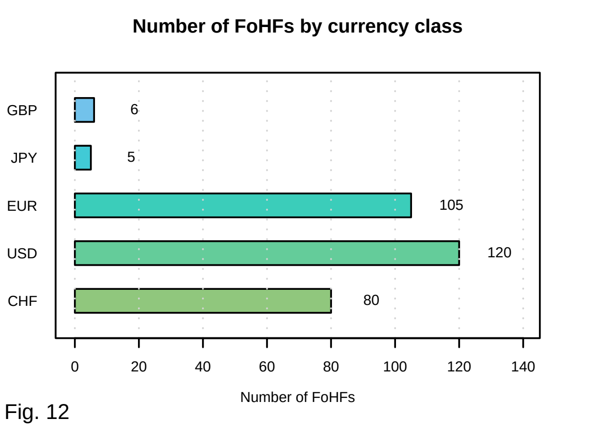

Fig. 12

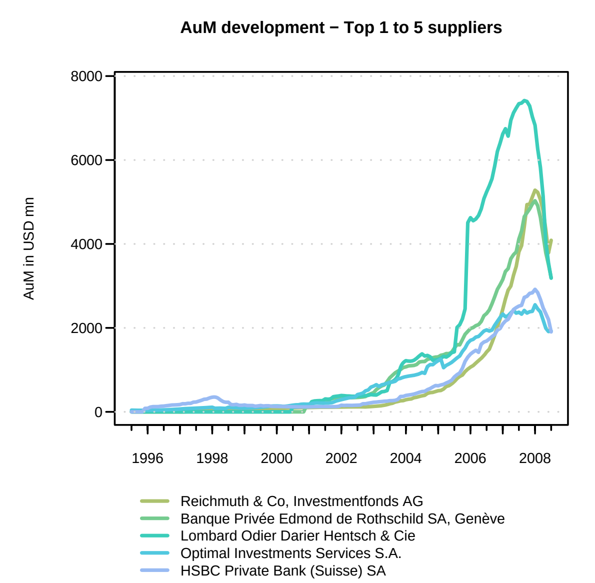

Fig. 13

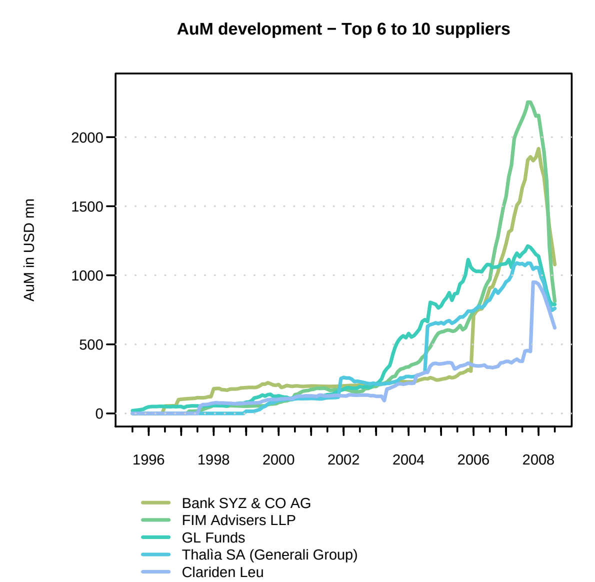

Fig. 14

4. Top ten suppliers

Within two years, 70% of the names in the list of the 'Top Ten' FoHF providers have changed

The financial crisis, and even more so the Madoff scandal, have had a major impact on the setup within the community of funds of hedge funds providers, especially in Geneva. In our previous survey as per year-end 2006, the Geneva based private bank ***Lombard Odier*** had been the leading supplier of Swiss-registered funds of funds, with AuM representing 14.5% of Swiss industry assets. By the end of 2008, Lombard Odier represented only the number three player, with total FoHF assets of USD 3,185 mn. Nevertheless, the financial centre of Geneva is still well represented within the Swiss hedge fund industry, with ***Banque Privée Edmond de Rothschild*** moving up to the number two position and AuM (amounting to USD 3,192 mn) now marginally ahead of Lombard Odier.

As per year-end 2008 ***Optimal Investments Services S.A.,*** the fund of hedge funds asset management company of the Santander Group, has decided to implement the orderly redemption and termination of several of its funds under management, being one of the major victims of the Madoff scandal. In 2008, the Geneva-based Group had still been a strong number four within the Swiss industry. Optimal began investing in hedge funds in the late 1980s already, thus being one of the earliest investors in the industry and among the leading alternative hedge fund groups globally. As per year-end 2008 Optimal Investment managed USD 1,926 mn of FoHF assets.

Union Bancaire Privée (UBP), on the other hand, after a short spell as the world's top 2008 provider of FoHF products, has now even disappeared from the 'Top Ten' list for Switzerland. At UBP the Madoff-related losses have amounted to an estimated CHF 700 bn and a glance at the list of liquidated products (see table 3 on page 27) reveals that in 2008 UBP has liquidated four of its funds of hedge funds.

On a temporary basis, ***Reichmuth,*** with its former top performer *Matterhorn,* had taken over the lead, with year-end 2008 assets of US 4.1 mn. As the Matterhorn fund has been negatively affected by the Madoff scandal, it is gradually being liquidated. Thus the 'Top-Ten' list for January 2009 already looks quite different, with Banque Privée Edmond de Rothschild taking the lead and Reichmuth disappearing from the list.

5. Core investment strategy

Diversified FoHF

78% of Swiss FoHFs are broadly invested in different strategy classes

Diversified FoHFs distribute their assets over the following strategy classes: relative value, directional and event-driven. These funds, which are broadly invested in different strategies, represent THE typical investment style selected by the overwhelming majority of Swiss FoHF fund managers. This pattern has not changed during the financial crisis, instead the opposite has tended to be true: despite the sharp setback experienced last year, FoHF assets classified as *Diversified* now represent 78% of Swiss industry assets, against 67% in January 1996. In absolute figures, this means that as per year-end 2008 USD 19.8 bn were invested in *Diversified* strategies, *which* represents a steep correction of 44% from the peak level of USD 32.5 bn reached in June 2008.

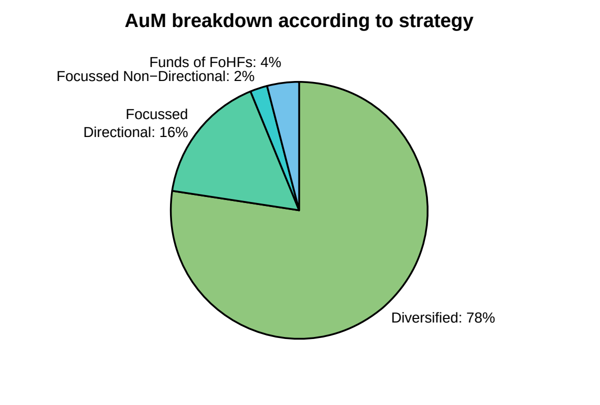

Fig. 15

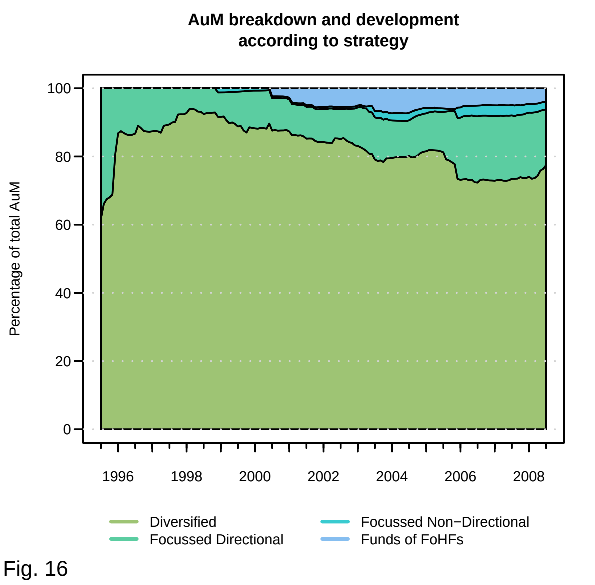

Fig. 16

Fig. 17 illustrates the development of AuM net flows (performance adjusted) on one hand and of the performance on the other hand.

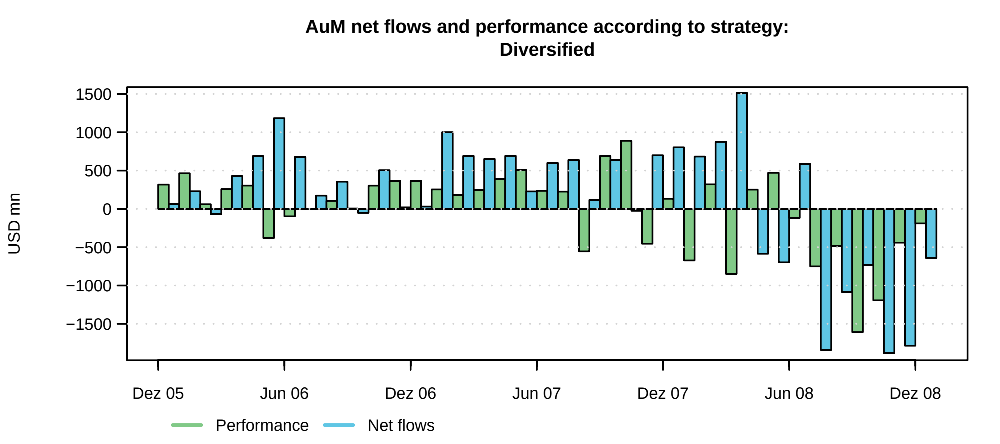

Fig. 17

Focussed directional FoHF

These funds of hedge funds are far more exposed to market trends, as the big majority invest essentially in long-short equity hedge funds. The long-short equity strategy is the oldest hedge fund strategy, and has existed since 1949. In 2008, in terms of strategic mandate, the global hedge fund industry experienced the largest decline in the market share of long/short equity managers. The Eurekahedge Long/Short Equities Hedge Fund Index registered a record loss of 21% for the year.

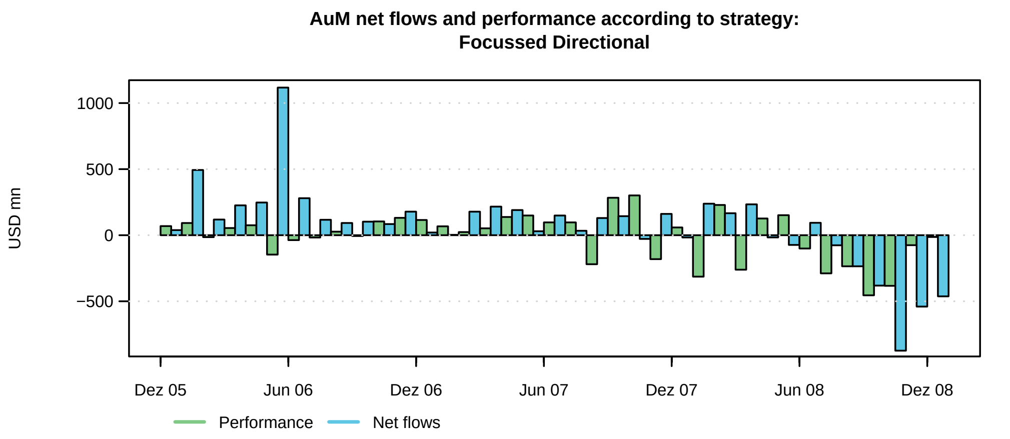

Fig. 18

While under-performing the HFRI index in 2008, on a long-term basis equity L/S strategies have done far better

There is a large universe of equity long-short strategies with different return drivers which allow investors a broad diversification. However, long-biased strategies have dominated to date. Over the past three years, most strategies have gained market share at the expense of equity long/short. The table below illustrates that – while underperforming the HFRI index in 2008 - on a long-term basis (database 1990-2008), annualized returns have been far better.

Performance L/S (HFRI) in a comparison

	Equity L/S HFRI	FoHF Index HFRI	MSCI World
Return 2008	-26.4%	-20.0%	-44.1%
Annualized returns	13.7%	8.1%	2.4%
3 years returns	-9.2%	-2.6%	-29.4%
5 years returns	8.2%	11.9%	-14.3%
Largest monthly return	10.9%	6.9%	10.3%
Largest monthly loss	-9.2%	-7.5%	-19.0%
Maximum drawdown	-28.2%	-20.8%	-48.4%
Maximum drawdown (number of months)	14	14	30
Standard deviation	0.2%	6.0%	14.8%

Tbl. 2 Source: Bloomberg, HFRI; data base January 1990 – December 2008

Focussed non-directional FoHF

Focussed non-directional strategies have never gained any importance among Swiss FoHF

Within the Swiss FoHF industry, focussed non-directional assets have never managed to gain any importance. 2006 was the only year in which, for a single quarter, this strategy showed substantial net asset inflows. Even in its best year this investment strategy never represented more than 4% of industry assets.

While having a relatively low correlation rate to equity markets, fund returns are more dependent on interest rate volatility and credit spreads. The funds seek exposure to various arbitrage strategies - areas which have failed to attracted many investors. Additionally, in 2008, in certain funds liquidity squeezes have caused new problems in some funds.

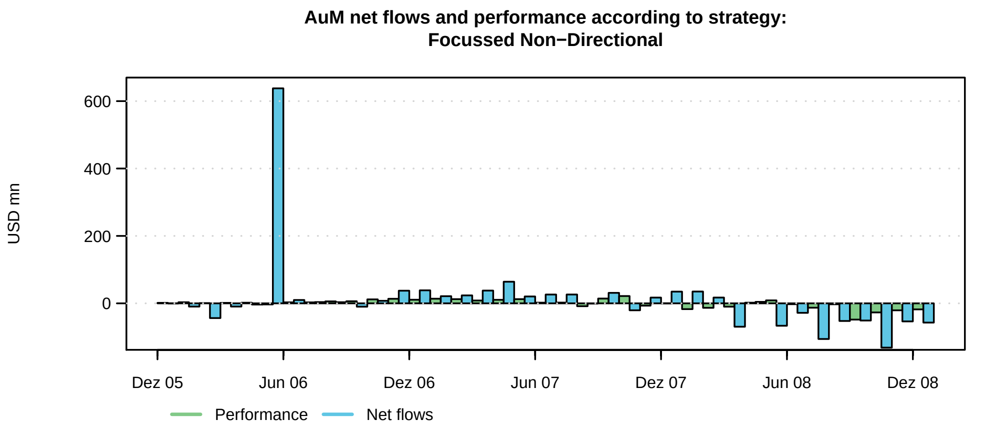

Fig. 19

Funds of Funds of Hedge Funds (F3)

A fund of funds of hedge funds (F3) is a fund, which invests in different, mostly focussed funds of hedge funds (FoHF). Some F3 products also invest a part of their assets directly in single manager hedge funds.

The only Swiss registered fund of funds of hedge funds (F3) in the *hedgegate* database is Lombard Odier's 'LODH Alternative Strategies' fund, which is composed of currently four Lombard Odier Multiadvisers sub-funds and LODH Delta Explorer Fund L.P. The maximum limit in any LODH fund of hedge funds is 50%. So far the business model has not been replicated by other providers as far as Swiss registered products are concerned..

6. Fund age

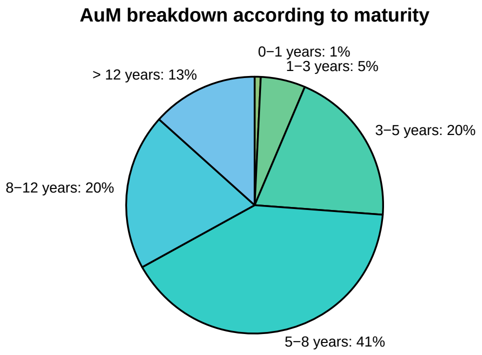

Fig. 20

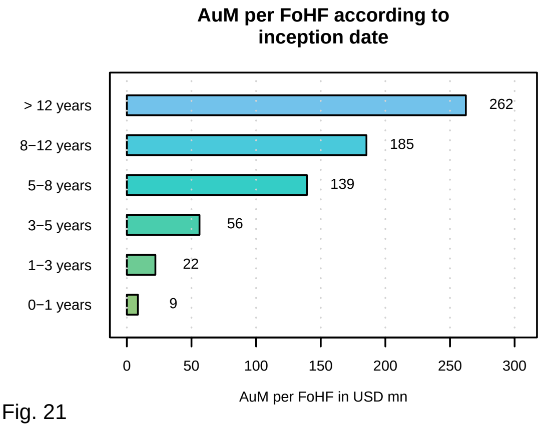

Fig. 21

Despite the crisis, there is still a remarkable correlation between the asset size of the funds and their age. Funds aged of over 12 years are nearly twice as large as funds where the inception date was only five to eight years ago (average AuM size as per year end 2008: USD 262 mn versus average AuM size of USD 139 mn).

There is a strong correlation between the asset size of the funds and their age

This situation is also reflected by the breakdown of total industry AuM according to fund age: only 13% of total AuM are aged over 12 years, compared to 41% with a fund age of 5-8 years. Age alone does not provide any guarantee of size, however.

Nevertheless, as per year-end 2008 there were 39 funds in the hedgegate database which were set up over five years ago, but never managed to attract over CHF 50 mn in terms of client assets. This represents over 40% of those funds where the inception date was over five years ago and which are still reporting the size of their fund assets.

7. Investment parameters

41% of the master FoHFs hedge their currency risk. However, 49% of the FoHFs do not hedge. This is a far higher percentage than in the case of Swiss single manager hedge funds, where this ratio is probably closer to 10% (see our survey of June 2008).

Two thirds of FoHFs have fixed the maximum leverage used at 125-130%, and only a meagre 4% operate through a maximum leverage of 145% or higher. This illustrates that, contrary to single hedge funds, de-leveraging is not a key topic for FoHFs in the aftermath of the crisis.

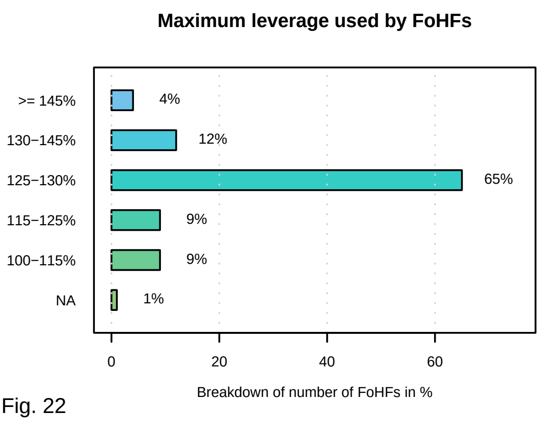

Fig. 22

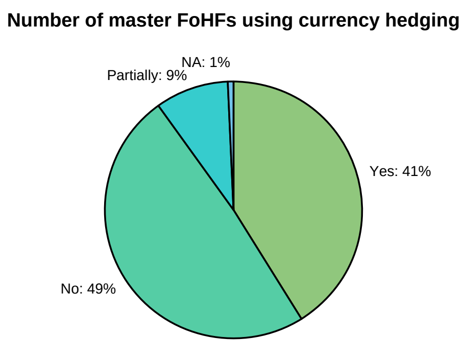

Fig. 23

8. Fee structures / high watermarks / hurdle rates

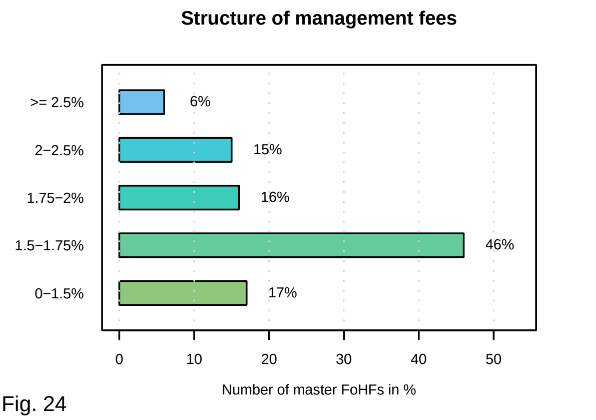

Fig. 24

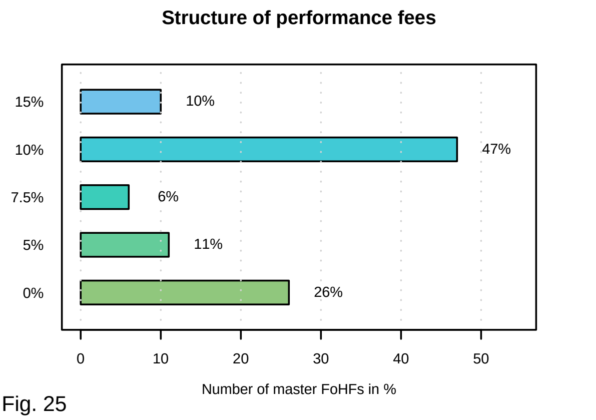

Fig. 25

The typical fee structure of a Swiss FoHF follows the "1.6%/10%" formula

The benefit of owning any fund of funds is experienced management and diversification, since putting eggs in more than one basket may reduce the dangers associated with investing in a single hedge fund. One disadvantage of investing in a fund of hedge funds is the fees. While funds of hedge funds have been criticized for this "incremental fee" structure, it can be argued that the fees are more than made up for by the potentially higher risk-adjusted returns offered by funds of hedge funds. Funds of hedge funds offer a diversified approach and therefore risk reduction. Investment in FoHFs rather than single manager hedge funds (SMHFs) enables the investor to outsource

- complex administration tasks
- costly risk-monitoring
- customized reporting

Also, except in times of crisis, investors might find it difficult to get access to the best investment talents, as these funds tend to be closed.

The typical fee structure of Swiss funds of hedge funds follows the "1.6%/10%" formula (management fee: maximum 1.6%; performance fee: maximum 10%). As figure 24 indicates, over 60% of the funds are adapting this formula. Swiss single manager hedge funds, on the other hand, tend to follow the "2%/20%" pattern instead.

Funds of hedge funds without any performance fee represent over one quarter of the universe analyzed, which is considerably more than the 5% reported in our SMHF survey 12 months ago.

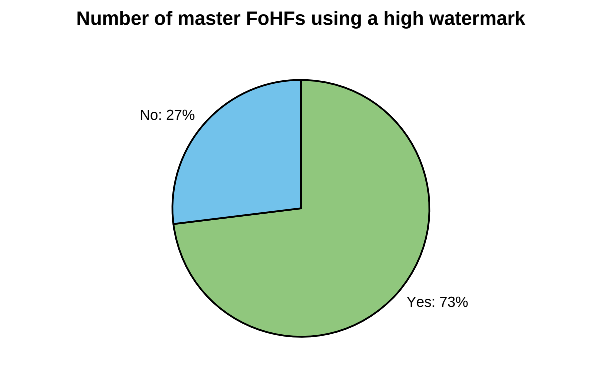

Fig. 26

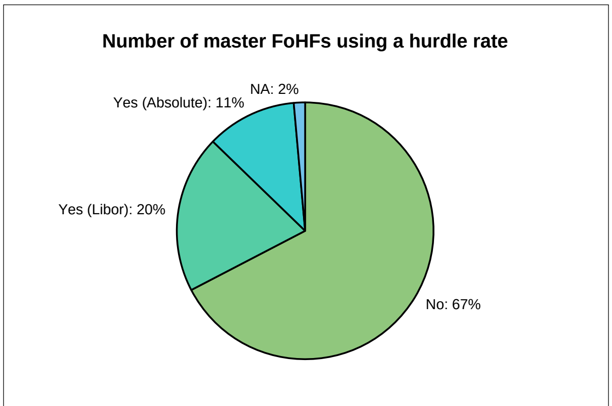

Fig. 27

The term ‘high watermark’ is used with regard to performance fees. The high watermark is the greatest NAV recorded for a particular period or most often since inception (all-time high). Increases in NAV beyond the high watermark make the investment manager eligible for performance fees.

High watermarks require that losses be recouped before performance fees can be charged. Most funds will not be able to charge a performance fee in 2008. With three quarters of Swiss FoHF using a high watermark, the way back to the high watermark will be a long one for quite a few of them.

The hurdle rate is the rate that a manager must exceed in order to qualify for a performance fee (provided funds exceed the high watermark). The fact that two-thirds of master FoHFs have not fixed a hurdle rate is in sharp contrast to the 73% that have set a high watermark.

9. Funds open/closed to subscriptions

It does not come as a surprise that, as per year-end 2008, 94% of all FoHFs in the hedgegate universe were open for subscriptions. This stands in contrast to single manager hedge funds where this ratio is considerably lower: There, except during times of crisis, investors might find it difficult to get access to the best investment talents, as these funds tend to be closed.

Some funds of hedge funds that had performance problems in 2008 have stayed open to start the year, but might be closed if they don't rebound quickly.

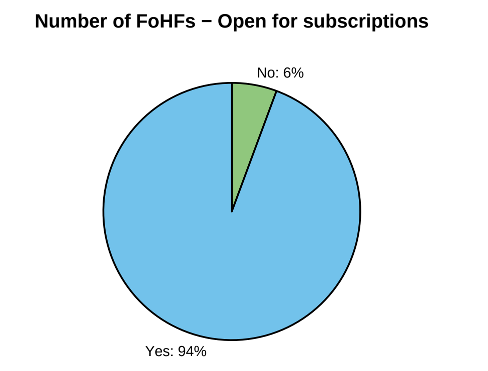

Fig. 28

10. Dealing terms and liquidity

Most single hedge funds have rather high initial minimum investment levels. Through a (Swiss registered) fund of hedge funds, however, investors can theoretically gain access to a number of selected hedge funds with a relatively small investment. As a result, the high retailization grade of the Swiss FoHF industry is reflected in the low level of the minimum investment size. 35% of the master FoHFs have a very low minimum investment size of USD 1,000-15,000.

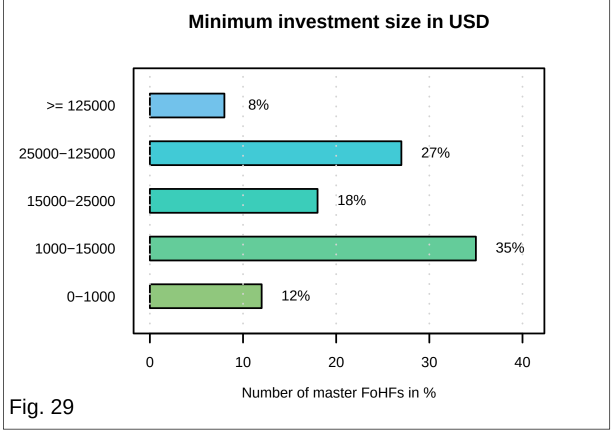

Fig. 29

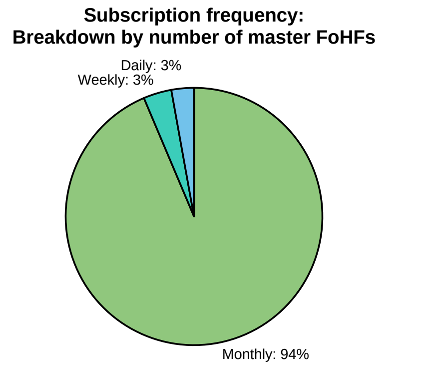

Fig. 30

This is in contrast to the Swiss single hedge fund industry, where our survey compiled in June 2008 revealed that 38% of the funds in question require a minimum investment of between USD 51,000 and USD 100,000. Nearly all master FoHFs offer monthly subscription periods.

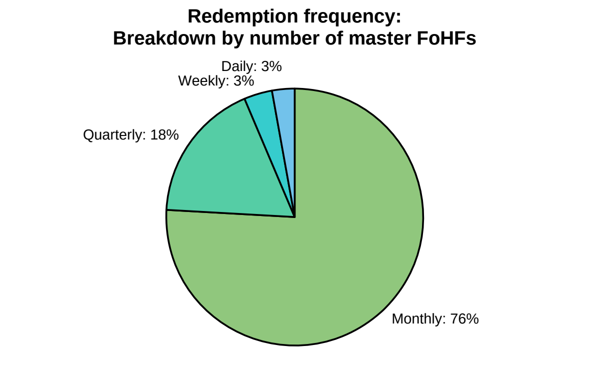

Fig. 31

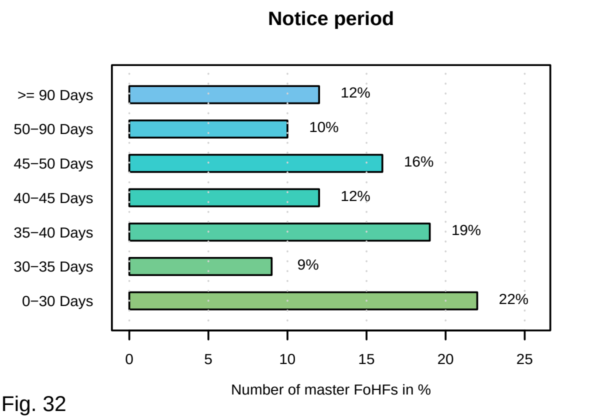

Fig. 32

In the context of hedge funds, liquidity is a major issue, not only for managers, but also for investors. Hedge fund managers will seek to structure new funds so that the duration and liquidity of the FoHF matches as closely as possible the duration and liquidity of the funds in the fund's portfolio. As a result, hedge funds following liquid strategies (managed futures) have short redemption terms. Hedge funds investing in illiquid investments (e.g. distressed assets, emerging markets) have longer redemption terms. Any substantial mismatch between the liquidity terms of funds of hedge funds and those of their underlying hedge funds constitutes a major problem in times of crisis.

In the case of redemption over 70% of all master FoHF investors have to wait at least 65 days until getting their money back

76% of all Swiss master funds of hedge funds claim to offer monthly redemptions, which is clearly above the 50% estimated by the HFR Global Industry report 2008. There seems to be no correlation between the size of the AuM of the funds and the frequency of their redemption dealing.

If we add the notice and redemption frequency, this adds up to the "total redemption frequency". Figure 33 reveals that 29% of the master funds of hedge funds have a total redemption frequency of 95 days or more, and another 29% of 65-75 days. In other words: at first glance the redemption frequency seems to indicate that Swiss FoHFs are fairly liquid instruments for investors aiming at closing their positions. A second glance, however, reveals that, at nearly 73% of all master funds, investors have to wait 65 days or longer to exit the funds. In only 5% of all FoHFs will investors get their money back within 35 days. Thus the assumption that FoHFs offer their clients a higher level of liquidity than single hedge funds in terms of the combined phase of redemption frequency and redemption notice period does not necessarily seem to be the case.

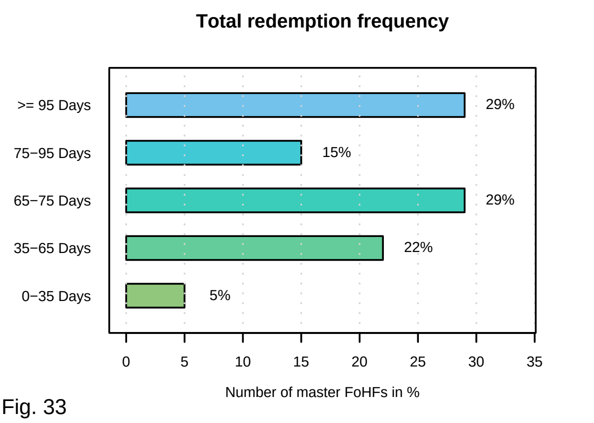

Fig. 33

IV. Performance of Swiss Funds of Hedge Funds

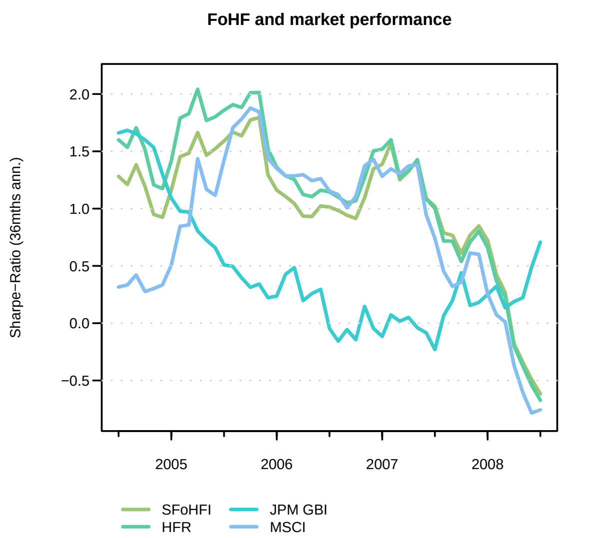

Fig. 34

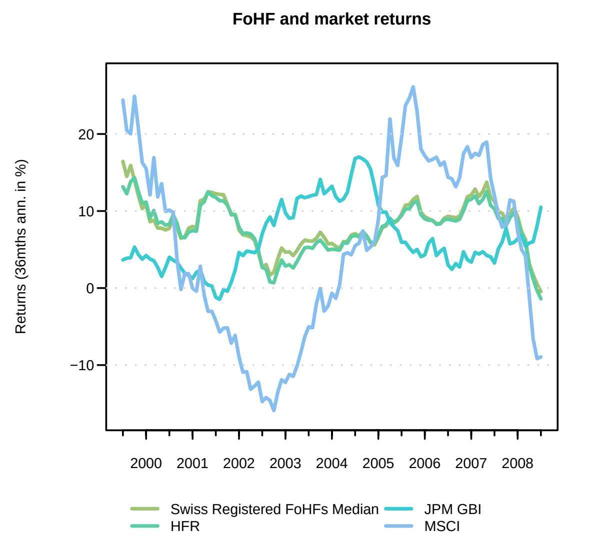

Fig. 35

2008 brought heavy losses for all asset classes worldwide. Commodities lost 62%, global indirect real estate investments 58%, equities 45% (MSCI World in USD) and corporate bonds 13%. This development sheds a more favourable light on the relative situation of the hedgegate Swiss FoHF Index (-20%).

The development in 2008 has detracted from the long-term stable returns of the FoHFs compared to the basic markets

The development in 2008 has detracted from the long-term stable returns of the FoHFs by comparison with the basic markets. Even in 2007, a year that was already marked by the adverse circumstances on the credit and share markets, the FoHF sector did not post a loss in any single quarterly period and, in fact, with a performance of over 10%, it clearly surpassed the leading share and bond markets.

The performance of global FoHF since 2000 can be broken down into three different cycles (figure 36):

1. Outperformance in the bear-market cycle: 2000-2002
2. Expansion on the back of strong net asset inflows: 2003-2007
3. Contraction in the wake of the financial crisis: 2008

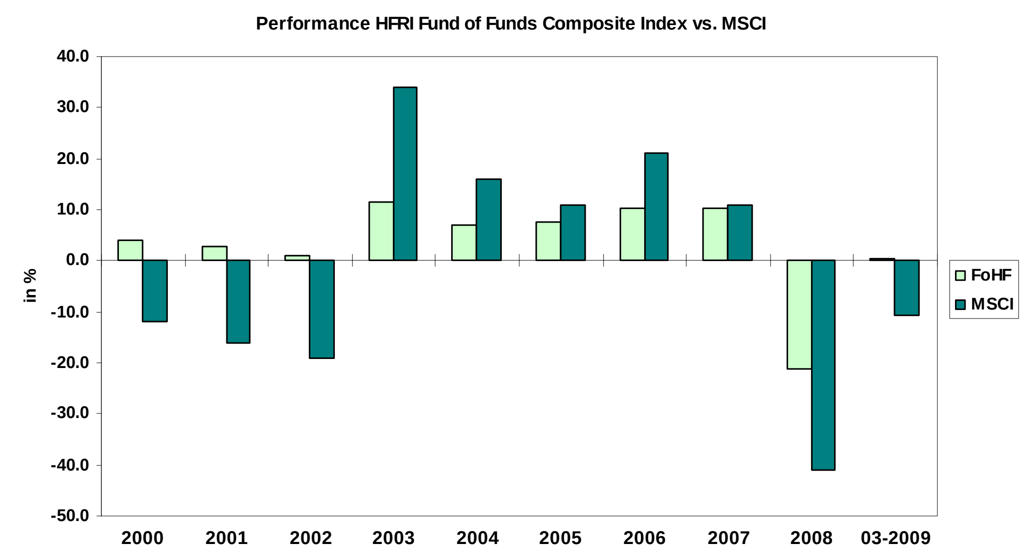

Fig. 36 Source: Bloomberg, HFR database

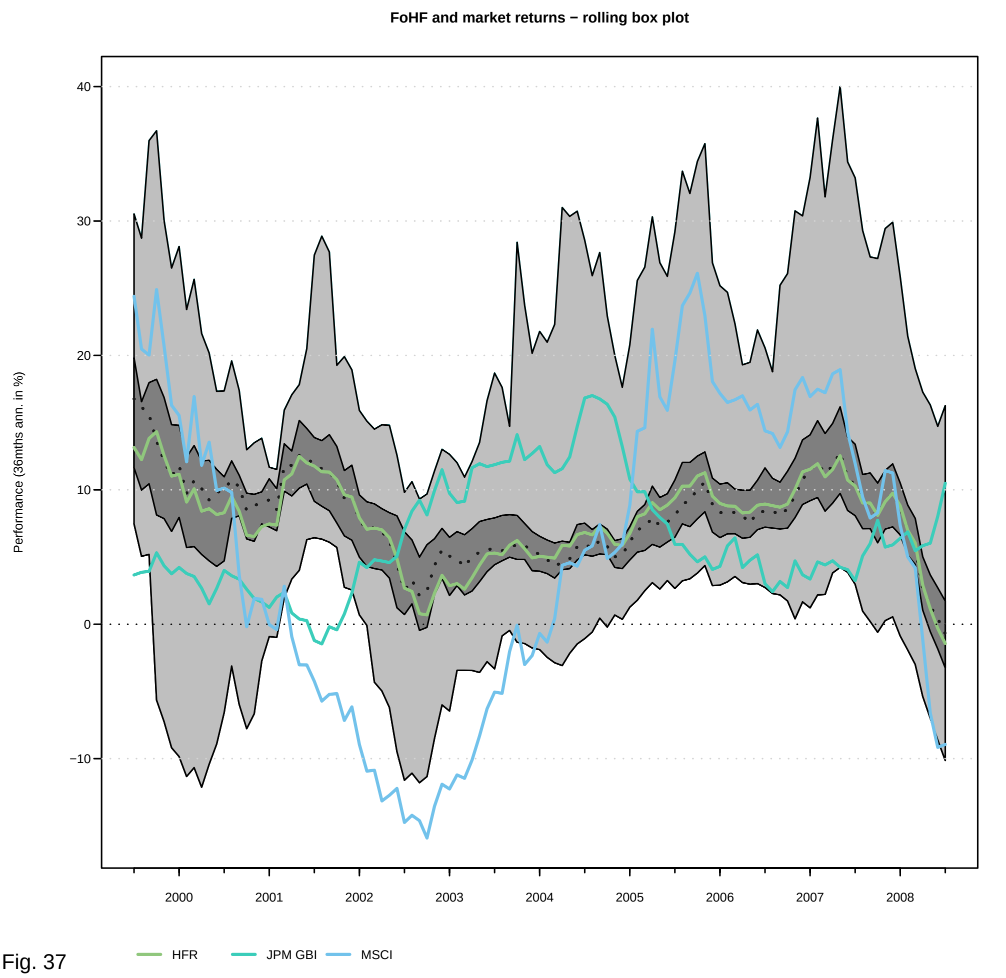

Fig. 37

The returns and the Sharpe ratios of the Swiss and the HFRI FoHF Index behave very similarly according to these rolling 36 months figures, indicating that the Swiss market is fairly representative of the global FoHF market in terms of return and risk.

The worst-performing Swiss FoHF had about the same returns as the world equity index for the last 36 months

Further insight is provided by the rolling box plot chart, which reveals the returns of all the USD Swiss FoHF. 50% of all FoHF returns are within a small bandwidth, the dark shaded area, while the best and worst-performing funds for each period display outlying behavior in some cases. For most readers, it might come as a surprise to learn that the worst-performing Swiss FoHF has had about the same returns as the world equity index for the last 36 months, and almost all of the FoHF have lost less, or have even positive returns.

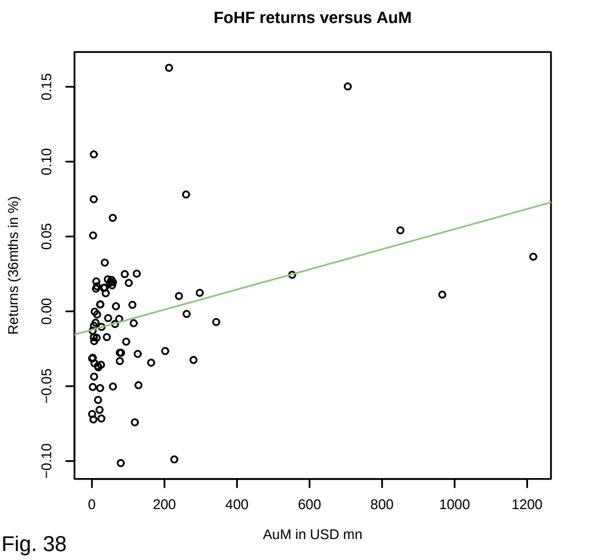

Fig. 38

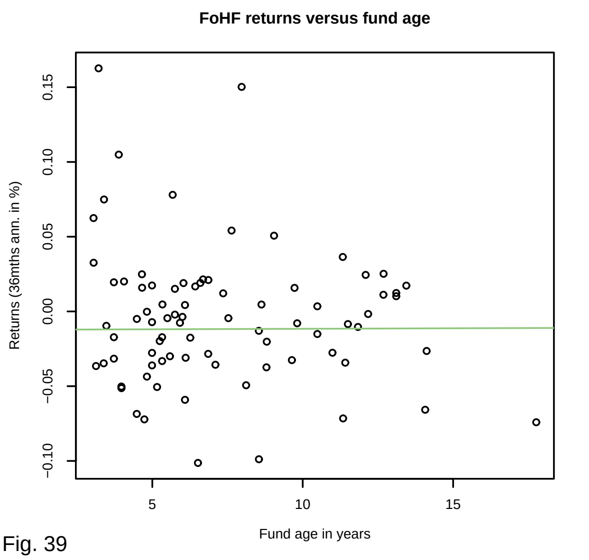

Fig. 39

The correlation between the performance and asset size of a fund is rather complex. Asset growth is defined by net AuM inflows and performance. Funds with above-average returns tend to grow faster. Figure 38 illustrates returns and size of all USD Swiss registered FoHF. Because of the few FoHF with above average AuM no conclusion about the relation can be drawn. Congruent to this size effect, there seems to be no connection between the age of the fund and its performance. When plotting these values against each other, the distribution is random and thus no trend is detectable.

Historically, large hedge fund drawdowns have offered good entry levels

Historically, large hedge fund drawdowns have offered good entry levels. In the past, the HFRI Fund of Funds Composite Index has picked up perceptibly after a poor year: The annual performance for 1999 – the year after the 5% minus resulting from the LTCM scandal of 1998 – rose by about 26%. And after moderate returns of 1% in the year 2002, the HFRI Fund of Funds Composite Index improved by 12% in the following year.

V. The Impact of the Financial Crisis

1. Net asset flows

Global development

Funds of hedge funds were the largest investors in hedge funds at the peak in mid-2008, with a market share of roughly 45%. Many funds of hedge funds which have a majority of private investors were required to put in major redemptions, as they themselves experienced redemptions from their clients. More balanced or institutional-oriented funds of funds were redeeming less violently.

The exodus of private investors triggered the acceleration of the institutionalization of the global hedge fund industry……

According to Hedge Fund Research, investors have pulled out another USD 103 bn in Q1 2009, which represents 7.3% of industry assets. At least this figure did not exceed the record outflow of over USD 152 bn recorded in Q4 2008. Withdrawals from FoHFs amounted to USD 85 bn, thus exceeding the Q4 2008 figure of USD 50 bn.

Switzerland

Net outflows for January 2009 accelerated in an unprecedented manner: at USD 7.2 bn, they even exceeded the level of the outflows experienced in the fourth quarter of 2008, which could essentially be interpreted as the result of the Madoff-scandal. As a result, within just a single month, assets of the Swiss funds of funds industry have decreased by another 28%, thus reaching a level last seen in December 2005. Even when adjusted for one major non-recurring item, (the “Matterhorn” fund of funds is currently in the process of liquidation, with the assets concerned representing approximately half of the monthly outflow), the development in January 2009 still represented the worst month ever experienced in terms of net asset flows for the Swiss FoHF industry. However, in March 2009, net outflows started to slow down substantially, amounting to a moderate USD 180 mn.

2. Institutionalization

Global development

The exodus of private investors triggered the acceleration of the institutionalization of the hedge fund industry. According to a study by the bank New York Mellon and Casey Quirk (April 2009), in 2008 high net worth individuals accounted for 80% or over USD 500 bn of hedge fund redemptions, though they had only held two-thirds of the assets. The outflows were disproportionately European. As a result, the global industry has been downsized, with an asset base which is more institutional and a bigger focus on North America.

In the wake of disproportionately high redemptions, the individual investors’ share of hedge fund assets dropped from 67% in 2005 to 57% at the end of last year. As a result, the demand for greater transparency and the preference for simple strategies might increase.

Switzerland

The high retailization grade of the Swiss FoHF industry is reflected in the low level of the minimum investment size. 35% of the master FoHFs have a very low minimum investment size of USD 1,000-15,000. This contrasts to the Swiss single hedge fund industry, where our survey compiled in May 2008 revealed that 38% of the funds in question require a minimum investment of between USD 51,000 and USD 100,000.

…..with Swiss FoHFs suffering from net outflows and liquidations to a disproportionately high extent

Retailization of Swiss FoHF started to soar as of 2000, followed by major redemptions in 2008. As a result, Swiss FoHF have suffered in a disproportionately high manner from net outflows and liquidations.

3. Fees

Global development

As a result of lower AuM, income from fixed management fees will decrease. At the same time, for hedge funds the way back to the high watermark is a long one. Most funds will not be able to charge a performance fee in 2009.

For global hedge funds and FoHFs, the way back to the high watermark is a long one

There are indications the hedge fund industry is beginning to cut their charges for new investors. For single hedge fund managers this means that the 2% (management fee) / 20% (performance fee) formula might not be sustainable. In any case, pension funds, on the back of performance problems, might also push for lower fees. The real threat is to smaller operators, as lower management fees may not cover their fixed costs.

Switzerland

Swiss FoHFs have traditionally added a 1.6% management and 10% performance fee. As 26% of all master FoHFs are not charging any performance fee at all, and another 48% are charging a performance fee of 10% rather than 20% in the case of single manger hedge funds, they have never been as dependent on incentive fees. Thus we assume that the business models of Swiss FoHFs are more sustainable.

4. Mismatches

In times of financial crisis any major mismatch between the liquidity terms of FoHFs and those of their underlying hedge funds have caused problems

In the context of hedge funds, liquidity is a major issue, not only for investors, but also for fund managers. Ideally hedge fund managers structure new funds so that the duration and liquidity of the FoHF matches the duration and liquidity of the funds in the fund's portfolio as closely as possible.

Any substantial mismatch between the liquidity terms of funds of hedge funds and those of their underlying hedge funds causes a major problem in times of crisis. Some FoHFs were managed with a significant mismatch between portfolio liquidity and the terms offered to investors, with reliance on a credit facility to bridge the two in the event of a sudden rush of redemption requests. In times of financial crisis this approach has caused headaches, as some investors wanted their money back.

5. Gates

Gates are an integral part of the prospectus of funds and enable managers, at times of market stress, to limit pay-outs of redemption requests for some time. As initially most gates followed the 'first-in-first-out' principle ('stacked gates') there was a flood of redemptions as many investors over-redeemed. In the meantime most FoHFs have changed their procedure to 'investor-level gates'. The latter limit the percentage of each individual investor's investment that can be redeemed on any redemption date. This might eliminate the 'rush to the exit' problem caused by 'stacked gates'.

6. Side pockets

Holding illiquid assets in a standard hedge fund portfolio can be a real problem when investors liquidate their position. Hence side pockets are used to separate out illiquid investments. Redeeming investors cannot receive any part of their investment which has been placed in the side pocket. This gives the manager the flexibility to sell an illiquid asset at a later stage, on the manager's terms and not merely in order to satisfy the investor's redemption request. Investors who leave the fund will still receive a share of the side pocket's value when this is realized.

Global development

In Luxembourg the regulator has approved a fast-track authorization procedure for the implementation of side-pocketing in Luxembourg UCIs (Undertakings for collective investment) or SIF (specialized investment funds).

Switzerland

The Swiss Financial Market Supervisory Authority, Finma, made it clear that in general, side pockets can also be approved for Swiss FoHF. Their creation is subject to the prior approval of Finma and must be in the interest of all investors. The rights of the investors have, moreover, to be preserved.

As a result of the prohibitive regulation, hardly any Swiss registered FoHF have set up side pockets recently

The creation of side pockets only applies to partially illiquid FoHF. According to Finma the issue of new units, or the distribution of partially illiquid collective investment schemes can constitute ‘a breach of the Code of Conduct as set out in the Collective Investment Schemes Act’. The distribution of affected FoHF has, in principle, to be suspended regardless of the creation of side pockets. As a result of the prohibitive regulation, hardly any Swiss registered funds have set up side pockets.

7. Redemptions

Global development

In the first quarter of 2009 investor outflows continued (see page 10), but the rate of redemptions decreased for the third month in a row, thus signaling that they might come to an end in the not too distant future. FoHF redemptions represent an over-proportional percentage of industry redemptions. However, the record FoHF closures mean some of this pressure has left the market and further indicates net hedge fund redemptions may be nearing a bottom.

Redemptions have primarily come from private investors and their intermediaries

Liquidity constraints are expected to persist for FoHFs for a while, as there is still a backlog to be worked through. Nevertheless, there are some encouraging signs. Some of the large hedge funds that locked up FoHFs' money last year have started to pay back cash earlier than expected, improving the liquidity profile of portfolios. In addition, according to market estimates, net withdrawals from FoHFs during the first quarter of 2009 have been lower than in the last three months of 2008.

Switzerland

Redemptions have come primarily from private investors and their intermediaries, while net outflows from institutional investors have remained very small.

Several providers have announced major changes to their redemption terms. In December 2008, GAM – to take just one example – announced that, for several of its hedge funds, redemptions would only be possible once a quarter, rather than once a month. At the same time, the institution increased its notice period from 45 to 95 days.

8. Liquidations

Global development

According to Hedge Fund Research, on the back of withdrawals of over USD 150 bn in Q4 2008, 778 funds have been liquidated. As a result, the total number of liquidations in 2008 jumped to 1,471, up 70% year on year. More than 275 funds of hedge funds were liquidated in 2008.

Switzerland

As figures indicate, the pace of liquidations has accelerated in December 2008.

Reichmuth Matterhorn, which had been a successful fund of hedge funds for over 11 years before suffering from Madoff-related problems, had announced its liquidation as per year-end 2008. As a result, 50% of the USD 7.2 bn net outflow within the FoHF industry recorded in Q1 2009 was due to this one single liquidation. In the meantime, Reichmuth Matterhorn has already implemented its first partial repayment of approximately half of the fund volume at the end of April 2009.

A glance at table 3, which shows those liquidations which have so far been confirmed for Q1 2009, illustrates that the financial crisis might continue to take its toll for a while.

Liquidated products 2008

Product name	Currency	Liquidation date
PFS Alternative Defensive Strategy Fund	USD	2008
Absolute Europe AG	EUR	2008
Absolute Managers AG	USD	2008
AWi Hedge Fund TRL	CHF	2008
DINVEST - Long/Short Europe A	EUR	2008
DINVEST - Total Return A	USD	2008
DINVEST - Total Return AC	CHF	2008
DINVEST - Total Return AE	EUR	2008
ABN AMRO Global Long Short Equity Strategy Fund A	EUR	2008
ABN AMRO Global Long Short Equity Strategy Fund A	USD	2008
Galileo Emerging Markets Fund	EUR	2008
3A Natural Resources Fund (CHF)	CHF	2008
3A Natural Resources Fund (EUR)	EUR	2008
3A Natural Resources Fund (USD)	USD	2008
3A Opportunity Fund	USD	2008
3A Opportunity Fund	CHF	2008
3A Opportunity Fund	EUR	2008
DINVEST - Long/Short US A	USD	2008
DINVEST - Select III Class A (USD)	USD	2008
DINVEST - Select III Class AC (CHF)	CHF	2008
DINVEST - Select III Class AE (EUR)	EUR	2008
LODH Multiadvisers - Global Arbitrage	USD	2008
LODH Multiadvisers - Global Arbitrage	EUR	2008
Reichmuth Matterhorn	CHF	2008
Reichmuth Matterhorn	USD	2008
Reichmuth Matterhorn	EUR	2008

Liquidated products Q1 2009

Product description	Currency	Liquidation date
LODH Multiadvisers - Asia Pacific Equity Long/Short	USD	Jan 09
LODH Multiadvisers - Asia Pacific Equity Long/Short	EUR	Jan 09
LODH Multiadvisers - Europe Equity Long/Short	EUR	Jan 09
LODH Multiadvisers - Latin America Equity Long/Short	USD	Jan 09
LODH Multiadvisers - Latin America Equity Long/Short	EUR	Jan 09
LODH Multiadvisers - U.S. Equity Long/Short	USD	Jan 09
LODH Multiadvisers - U.S. Equity Long/Short	EUR	Jan 09
MirAlt Sicav Equilibrium (CHF)	CHF	Jan 09
MirAlt Sicav Equilibrium (EUR)	EUR	Jan 09
MirAlt Sicav Equilibrium (USD)	USD	Jan 09

Tbl. 3

This view is confirmed by table 4 on page 28, summarizing the number and size of liquidations which have been announced, but not yet executed. As a result of its M&A transactions, Fortis is liquidating ABN Amro products. As per year-end 2008, Optimal Investments Services S.A., the funds of hedge funds asset management company of the Santander Group, has decided to implement the orderly redemption and termination of several of its funds under management, being one of the major victims of the Madoff scandal.

Announced liquidations

Institution	Product	AuM in mn	as of	Curr.	Liq. date	Ann. date
Fortis Investments	ABN AMRO Active Alpha Fund (USD) A	9.3	02-09	USD	in liq.	01-09
Fortis Investments	ABN AMRO Active Alpha Fund (EUR) A				in liq.	01-09
Fortis Investments	ABN AMRO Asia Pacific Alternative Strategy Fund Class A USD	4.7	02-09	USD	in liq.	01-09
Fortis Investments	ABN AMRO Asia Pacific Alternative Strategy Fund Class A EUR				in liq.	01-09
Fortis Investments	ABN AMRO Opportunity Driven USD A	7.2	02-09	USD	in liq.	01-09
Fortis Investments	ABN AMRO Opportunity Driven EUR A				in liq.	01-09
Fortis Investments	ABN AMRO Relative Value Strategy Fund Class A USD	4.5	02-09	USD	in liq.	01-09
Fortis Investments	ABN AMRO Relative Value Strategy Fund Class A EUR				in liq.	01-09
OIS Gruposantander	Optimal Asian Opportunities (Ireland) Fund - Class A USD	139.1	11-08	USD	in liq.	01-09
OIS Gruposantander	Optimal Asian Opportunities (Ireland) Fund - Class A EUR				in liq.	01-09
OIS Gruposantander	Optimal Asian Opportunities (Ireland) Fund - Class A JPY				in liq.	01-09
OIS Gruposantander	Optimal European Opportunities (Ireland) Fund - Class A EUR	590.7	11-08	EUR	in liq.	01-09
OIS Gruposantander	Optimal European Opportunities (Ireland) Fund - Class A USD				in liq.	01-09
OIS Gruposantander	Optimal Global Opportunities (Ireland) Fund - Class A USD	573.8	11-08	USD	in liq.	01-09
OIS Gruposantander	Optimal Global Opportunities (Ireland) Fund - Class A EUR				in liq.	01-09
OIS Gruposantander	Optimal Global Trading (Ireland) Fund - Class A USD	702.3	11-08	USD	in liq.	01-09
OIS Gruposantander	Optimal Global Trading (Ireland) Fund - Class A EUR				in liq.	01-09
OIS Gruposantander	Optimal US Opportunities (Ireland) Fund - Class A USD	511.2	11-08	USD	in liq.	01-09
OIS Gruposantander	Optimal US Opportunities (Ireland Fund - Class A EUR				in liq.	01-09
EFG Bank	The EFG Multimanager Navigator Medium Volatility Fund USD	14	09-08	USD	mid-09	
EFG Bank	The EFG Multimanager Navigator Medium Volatility Fund EUR	17.2	09-08	EUR	mid-09	
EFG Bank	EFG Alternative Investment (USD)	8.5	09-08	USD	mid-09	
EFG Bank	EFG Alternative Investment (EUR)	21.5	09-08	EUR	mid-09	
EFG Bank	EFG Alternative Investment (CHF)	12.3	09-08	CHF	mid-09	
Clariden Leu	SAAF (Gue) Japan Plus Fund	348.2	02-09	JPY	in liq.	02-09
Clariden Leu	SAAF Real Estate Plus Fund USD	15.5	02-09	USD	in liq.	03-09
Clariden Leu	SAAF Real Estate Plus Fund EUR	13.3	02-09	EUR	in liq.	03-09
Sarasin	Sarasin Torneo Multistrategy Fund (CHF)	68.78	02-09	CHF	in liq.	10-08
Sarasin	Sarasin Torneo Structured Opportunities Fund (USD)	16.2	02-09	USD	in liq.	10-08
PvB	PvB (CH) Global One Diversivied (USD)	200.16	03-09	USD	03-09	04-09
PvB	PvB (CH) Global One Diversivied (EUR)				03-09	04-09
PvB	PvB (CH) Global One Diversivied (CHF)				03-09	04-09
Harcourt	Belmont (Lux) Fixed Income (USD)	6.0	02-09	USD	in liq.	03-09
Harcourt	Belmont (Lux) Fixed Income (EUR)	8.2	02-09	EUR	in liq.	03-09
Harcourt	Belmont (Lux) Fixed Income (CHF)	16.8	02-09	CHF	in liq.	03-09
Harcourt	Belmont (Lux) Market Neutral EUR	5.6	02-09	EUR	in liq.	gated/in liq.
Harcourt	Belmont (Lux) Market Neutral CHF	5.3	02-09	CHF	in liq.	gated/in liq.

Tbl. 4

As table 5 illustrates, there have also been product launches in Q1 2009. Interestingly enough, the list is dominated by Lombard Odier: between December 2008 and March 2009, this provider had liquidated nine different Swiss registered hedge fund products, only to re-launch six new products with AuM amounting to over USD 800 mn (estimate).

Announced launches

Product	Currency	Date
3A Trading Fund	USD	Jan 09
LODH Multiadvisers - Market Neutral	USD	Jan 09
LODH Multiadvisers - Market Neutral	EUR	Jan 09
LODH Multiadvisers - Market Neutral	CHF	Jan 09
3A Trading Fund	EUR	Feb 09
LODH Multiadvisers - Global Equity Long/Short	USD	Feb 09
LODH Multiadvisers - Global Equity Long/Short	EUR	Feb 09
LODH Multiadvisers - Global Equity Long/Short	CHF	Feb 09

Tbl. 5

9. Regulation

After sustaining the worst year ever, industry talk has turned from "if" regulation should be implemented to 'what, how and when' regulation is likely to be introduced.

Global development

Industry talk has turned from 'if' regulation should be implemented to 'what, how and when' it is likely to be introduced

- **US:** On January 29, 2009, the Hedge Fund Transparency Act of 2009 was introduced. It would regulate funds in two major respects: (a) require registration with the SEC for funds with assets of USD 50 million or more and (b) impose more stringent anti-money laundering obligations.
- **EU**: On April 29, 2009, the EU proposals for regulating hedge funds and private equity have been unveiled. It emerged that the threshold will be EUR 100 mn of AuM for hedge fund managers. Managers covered by the new directive will have to seek authorization and meet reporting, governance and risk management standards, including minimum capital requirements. Key service providers will also have to meet regulatory standards. The law still needs the backing of both the European Parliament and member states. The Commission also set out non-binding recommendations on remuneration.

  The industry has reacted with anger, with some key representatives warning that these EU rules will "cripple the industry".
- **FSA:** the FSA (UK's Financial Services Authority) is continuing to roll out its Supervisory Enhancement Program. Its key feature is more supervisory staff of a higher quality. Under the new approach, supervisors will judge the decisions made by senior management and take actions if those decisions lead to unacceptable risks. This new 'intensive Supervisory Model' will result in a more direct and intrusive style of supervision, combined with a more proactive enforcement approach.

Switzerland

The self-regulation codes of conduct drawn up by the SFA were recognized as minimum standards by the Swiss regulator in April 2009

- **SFA:** The self-regulation codes of conduct drawn up by the Swiss Funds Association SFA, which were recognized as minimum standards by the Swiss Financial Market Supervisory Authority in April 2009, will serve as an aid for the fund industry and also benefit investors. These minimum standards are the revised Code of Conduct for the Swiss Funds Industry, which has also been amended in line with the Collective Investment Schemes Act (CISA) and the new Code of Conduct for asset managers of collective investment schemes. The former contains rules on aspects such as professional distribution, communications with investors, the voting behaviour of fund management companies and SICAVs (investment companies with variable capital) and best execution, as well as the avoidance and disclosure of conflicts of interest. The SFA supports pragmatic solutions coordinated with international organizations such as the AIMA (Alternative Investment Management Association) and foreign supervisory authorities.

  In the wake of the negative reactions to the EU proposals (see above) some market participants in London expect that a certain number of hedge fund managers will relocate to Switzerland. Any decision of this nature would, however, still be prompted by recent tax increases in the UK.

10. Short selling rules

Global development

After 19 September 2008, when the SEC and the FSA banned short-selling in financial stocks, many other regulators around the world, followed suit. The shorting ban on financial stocks was ultimately adopted in Australia, France, Germany, Ireland, the Netherlands, Spain, Switzerland and Taiwan. This ban has been lifted again in the meantime.

The SEC, however, voted unanimously to issue proposed curbs on short selling, including a return of the ‘uptick rule', for a 60-day public comment period. The five proposed measures would restrict a type of investment blamed by some lawmakers and executives for worsening the financial crisis and driving down share prices. The ‘uptick rule’ allowed short sales - a bet that a stock's price will fall - only when the last sale price was higher than the previous price. Any final action is likely to be several months away still.

Lobbying groups issued statements opposing the regulator’s move, arguing that short-selling was a legitimate, vital investment strategy adding liquidity to the markets and facilitating fair pricing. The SEC’s temporary ban on short sales of financial stocks last year was blamed in part for the huge losses the industry suffered in the fourth quarter.

According to SIX Swiss Exchange, management short selling is a valuable trading strategy and should be feasible in a mature market

In the UK representatives of the financial services industry confronted the UK’s Treasury Select Committee with four studies showing the ban on short-selling financial stocks was a mistake. Regression analysis suggested that changes in stock returns were driven by factors other than the restrictions on short selling.

Switzerland

According to the representatives of SIX Swiss Exchange, short selling is a valuable trading strategy and should be feasible in a mature market. Management is thus clearly against the introduction of the up-tick rule or circuit breakers, as is planned for US markets. According to SIX, settlement procedures are highly efficient and disciplined. This means that pre-borrowing is guaranteed and that naked short sales are not that widespread. However, a solo-attempt by the Swiss market is out of the question, and any future regulation will have to be coordinated at least within Europe.

APPENDIX

A. Additional statistics

1. Number of master products

Number of master products according to legal form and strategy

Legal form	Strategy	Active	Liquidated	Total
Swiss FoHFs	Diversified	43	9	52
	Focussed directional	6	2	8
	Focussed non-directional	3	1	4
	Funds of FoHFs	1	0	1
Investment companies	Diversified	4	3	7
	Focussed directional	0	0	0
	Focussed non-directional	0	0	0
	Funds of FoHFs	0	0	0
Foreign FoHFs	Diversified	48	12	60
	Focussed directional	19	13	32
	Focussed non-directional	2	3	5
	Funds of FoHFs	0	0	0
Investment foundations	Diversified	4	2	6
	Focussed directional	0	0	0
	Focussed non-directional	4	0	0
	Funds of FoHFs	0	0	0
Total		**134**	**45**	**175**

Tbl. 6

Number of master products according to legal form and currency

Legal form	Currency	Active	Liquidated	Total
Swiss FoHFs	USD	39	10	49
	EUR	4	2	6
	CHF	9	0	9
	JPY	1	0	1
Investment companies	USD	4	1	5
	EUR	0	1	1
	CHF	0	1	1
	JPY	0	0	0
Foreign FoHFs	USD	61	23	84
	EUR	5	3	8
	CHF	2	2	4
	JPY	1	0	1
Investment foundations	USD	0	0	0
	EUR	0	0	0
	CHF	4	2	6
	JPY	0	0	0
Total		**130**	**45**	**175**

Tbl. 7

2. Number of products

Number of products according to legal form and strategy

Legal form	Strategy	Active	Liquidated	Total
Swiss FoHFs	Diversified	98	18	116
	Focussed directional	12	4	16
	Focussed non-directional	7	3	10
	Funds of FoHFs	3	0	3
Investment companies	Diversified	4	3	7
	Focussed directional	0	0	0
	Focussed non-directional	0	0	0
	Funds of FoHFs	0	0	0
Foreign FoHFs	Diversified	122	22	144
	Focussed directional	39	18	57
	Focussed non-directional	4	4	8
	Funds of FoHFs	0	0	0
Investment foundations	Diversified	4	2	6
	Focussed directional	0	0	0
	Focussed non-directional	0	0	0
	Funds of FoHFs	0	0	0
Total		**293**	**74**	**367**

Tbl. 8

Number of products according to legal form and currency

Legal form	Currency	Active	Liquidated	Total
Swiss FoHFs	CHF	40	7	47
	USD	42	11	53
	EUR	36	7	43
	JPY	1	0	1
Investment companies	CHF	0	1	1
	USD	4	1	5
	EUR	0	1	1
	JPY	0	0	0
Foreign FoHFs	CHF	33	6	39
	USD	64	23	87
	EUR	59	15	74
	JPY	4	0	4
Investment foundations	CHF	4	2	6
	USD	0	0	0
	EUR	0	0	0
	JPY	0	0	0
Total		**287**	**74**	**361**

Tbl. 9

3. Liquidated products

Liquidated products 2006 - 2007, according to hedgegate

Product name	Currency	Liquidation date
Acorn Alternative Strategies AG	CHF	2006
GAM Global Multi-Trading	CHF	2006
GAM Global Multi-Trading	USD	2006
GAM Global Multi-Trading	EUR	2006
Leu Prima Relative Value Fund	USD	2006
Leu Prima Relative Value Fund	CHF	2006
Leu Prima Relative Value Fund	EUR	2006
The Alpstar Fund - Multistrategies - I	EUR	2006
ACE Macro Fund -B-	USD	2007
Bank Hofmann Alternative Strategies	CHF	2007
Credit Suisse PST (Lux) International Markets B	USD	2007
Credit Suisse PST (Lux) Tactical Trading B	USD	2007
CSA Hedge Fund USD	CHF	2007
DINVEST - Technologies A	USD	2007
HSBC Macro AdvantEdge Fund	USD	2007
SAAF Select Alternative Asset Fund -A-	USD	2007
SAAF Select Alternative Asset Fund -H-	EUR	2007
The Alpstar Fund - Multistrategies - P	EUR	2007
The EFG Multimanager Navigator Lower Volatility Fund EUR	EUR	2007
The EFG Multimanager Navigator Lower Volatility Fund USD	USD	2007

Tbl. 10

B. About ABS Investment Management

Firm: ABS Investment Management LLC ("ABS") is an independent fund of hedge funds that began operations in the fall of 2002. The firm is a Delaware Limited Liability Company and is based in Greenwich, CT. ABS has been a Registered Investment Advisor with the SEC since July 2003. ABS specializes in equity long/short investment strategies with particular focus on global strategies. The founding principals – Alain De Coster, Laurence Russian and Guilherme Valle – have worked together building and managing fund of hedge funds for over a decade. Prior to starting ABS, the principals worked at Credit Suisse Asset Management and Garantia, Inc. (a Brazilian investment bank) managing over US$3.4billion of hedge fund assets. As of January 2009 ABS manages US$2.1 billion of hedge fund assets focused on equity long/short strategies.

Goal: ABS was established to create and be recognized as one of the highest quality franchises in absolute return-oriented investment management. To achieve this goal, our single focus is to generate excellent risk/reward returns for our clients while providing them with first class client service. Our only line of business is the managing or advising of investment vehicles that invest into hedge funds.

Team: ABS is comprised of seventeen employees. The founders, Alain De Coster, Laurence Russian, and Guilherme Valle are dedicated to investment research, portfolio and risk management, and are supported by four qualitative analysts: Michael Halper, Donald Leung, Jeff Alleva, and Omar Yacoub. Sean White and Ioanna Chatzistamatiou are dedicated to risk management and quantitative analysis. Mark Murphy, Christian Thorn, and Amber Johnston are dedicated to client service and business development. David Finn, Frank Docimo, Dayana Ovalle, and Greg Moroney are dedicated to accounting and operations. Allison Hill is dedicated to office management and administration. We also have a Hong Kong dedicated research office that is led by Donald Leung.

Products: ABS manages multiple equity long/short focused hedge fund of funds with a wide range of risk/reward profiles. ABS Investment Management LLC launched its first investment vehicle, ABS Offshore SPC, on January 1, 2003 with two separate portfolios (strategies). The ABS Offshore SPC – Equity Segregated Portfolio is comprised of hedge funds that invest in developed equity markets using long/short strategies, often with a fundamental bottom-up investment style. The ABS Offshore SPC – Global Segregated Portfolio is comprised of hedge funds that target absolute returns through a wide array of equity long/short strategies, including emerging markets, using both a bottom-up orientation (stock-pickers) as well as a top-down (macro) orientation. In July 2003, ABS launched ABS Limited Partnership, our onshore fund for taxable US investors. In August 2004, we launched ABS Insurance Fund LP, an onshore fund offered solely to insurance companies. In January 2005 we launched ABS Offshore SPC – Asia Segregated Portfolio and in February 2005, we launched ABS Alpha Ltd. – Alpha Portfolio, an ERISA dedicated fund. In January 2006, we launched ABS Alpha Ltd. – Global Equity Portfolio, another ERISA dedicated fund. In July 2006 we launched ABS Overseas Limited Partnership our globally focused onshore fund for taxable US investors. On January 1, 2007 we launched the ABS Offshore SPC – Europe Segregated Portfolio and on January 1, 2008, we launched the ABS Offshore SPC – New Technologies Segregated Portfolio. ABS will offer its investment management services for separate accounts with a minimum of $50 Million. ABS currently manages four separate accounts.

Philosophy: Our investment philosophy is to find and invest with the best money managers in the world and to provide a superior risk-adjusted return relative to the markets in which our managers participate. To achieve this objective, we draw upon more than a decade of fund of hedge funds portfolio management experience, the investment flexibility of the hedge-fund format, and a dose of humility and common sense. Furthermore, our primary goal is to protect investors' capital in difficult markets and grow investors' capital in periods of greater opportunities. As a result of the above, we have succeeded in delivering superior risk-adjusted returns over the medium, and long-term.

Technology: ABS has spent significant time and money developing a proprietary investment system. The platform includes individual hedge fund analytics, portfolio of hedge funds analytics, strategy monitoring, reporting, and accounting. This technology system allows ABS to leverage the collective experience and knowledge of the team and was built with the ability for users to access the system remotely.

We hope this gives you an idea about ABS Investment Management LLC and our products. Please feel free to contact us if you would like further information.

ABS Investment Management LLC 55 Railroad Avenue, Greenwich, CT 06830 Phone: 203-618-3700 / Fax: 203-622-4889

C. About ZHAW Centre Alternative Investments

The Centre Alternative Investments & Risk Management is an institute of ZHAW School of Management. A team of five full-time and three part-time specialists is headed by Prof. Dr. Peter Meier and focuses on education, research and advisory services in the area of alternative products, with a special focus on hedge funds. With support from the Confederation's innovation promotion agency (CTI) and Complementa Investment-Controlling AG they have developed the www.hedgegate.com internet webtool (launched in 2006). In 2008, the centre developed the hedgegate Swiss FoHF Index, the first representative Swiss Funds of Hedge Funds index family. The official launch of FoHF performance ratings took place in January 2009 already. These ratings have also been developed with support from the CTI.

The ZHAW was inaugurated in September 2007, resulting from the merger of four previously independent institutions. The ZHAW now comprises eight schools, one of which is the School of Management and Law. The range of specialized fields across the eight schools allows the multidisciplinary ZHAW to foster interdisciplinary synergies that generate a wealth of positive impulses for both teaching and research.

Thanks to its internationally recognized bachelors degree programmes, its new consecutive masters degree programmes, its well-established, practice-oriented continuing education programmes, and its innovative research and consultancy projects, the ZHAW School of Management and Law has become one of Switzerland's leading business schools.

D. Glossary

CORRELATION
A measure of how closely one set of returns, such as the performance of a fund, is related to another, such as the performance of the overall market.

GATE
A redemption gate limits the percentage of fund capital that can be redeemed on any redemption date.

HEDGE FUNDS
Hedge funds are funds that focus on absolute return and not on performance relative to a benchmark. The term covers a broad range of funds adopting a variety of investment techniques and strategies.

FUND OF HEDGE FUNDS (FoHF)
Fund that invests in other funds. The concept behind such funds is that they are able to move money between the best funds in the industry to take strategic advantage of changing market conditions.

SMHF: Single Manager Hedge Funds.

HIGH WATERMARK
The term is used with regard to performance fees. It is the greatest NAV recorded for a particular period (most often since inception). Increases in NAV beyond the high watermark make the investment manager eligible for performance fees.

HURDLE RATE
Rate that a manager must exceed in order to be qualified to receive incentive fee (provided they exceed the high watermark).

LEVERAGE
The use of borrowed capital, such as margins, options or futures, commonly used to increase the potential return of an investment. The use of leverage is restricted to those funds whose investment guidelines permit its use, typically hedge funds.

MANAGED ACCOUNT
Investment account that the company entrusts to a manager, who decides when and where to invest the money.

MANAGED FEE
A fee charged for managing a portfolio that is a fixed percentage of the NAV.

MASTER-FEEDER FUND STRUCTURE
This structure is a way hedge funds are set up to accept assets from both foreign and domestic investors in the most tax and trading efficient manner possible.

NAV
The net asset value is calculated by taking the market value of all securities owned, plus all other assets, subtracting all liabilities, then dividing the result by the total number of shares outstanding.

PERFORMANCE FEE
Compensation for the investment manager, also called incentive fee, depending on the profits of a fund or vehicle (subject to high watermark and/or hurdle rate).

QUALIFIED INVESTOR
High net worth individual confirming that he/she holds financial investments of at least CHF 2 mn at the time of purchase (Art. 6 CISO).

SIDE POCKET
Segregated account set up to hold portfolio assets that the manager deems illiquid. When a side pocket is created, a corresponding portion of the investors’ interests are generally converted into a new class of non-redeemable interests, representing the fund’s investment in the illiquid assets.

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F. List of figures

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