

THE HEDGE FUND "INDUSTRY"

Presentation by:

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- 9+ Years in Hedge Funds
- 1993-2000: Arthur Andersen's Hedge Fund Advisory Group
- 2000-2002: Credit Agricole Alternative Investments Products Group
- 2002-Today: Banc of America Securities

Hedge Funds: An Industry???

Per Webster's Dictionary:

- "Industry": ...businesses that provide a particular product or service...

Hedge Funds: An Industry??

Value

- “Elkhorn Fund” - Robert Sanborn

vs.

- “D2 Capital” - David Steinberg

Distressed

- “Noble Distressed Fund” - Jeff Maillet

Hedge Funds

- NO 2 HEDGE FUNDS ARE ALIKE!!!!
- EVEN IN THE SAME STRATEGY!!!

Hedge Funds: Definition

Per "Campise's" Dictionary:

- "...a diversified group of entrepreneurs attempting to take advantage of the inefficiencies that exist in today's marketplace via a multitude of strategies..."

Hedge Funds: History

- 1949 - Alfred Winslow Jones - "hedging" and "leverage"
- 1952 - Incentive Fee
- 1966 - Fortune Magazine Article "The Jones' That Nobody Can Keep Up With"
- 1968 - 20 Hedge Funds (Soros, Steinhardt, etc...)

Hedge Funds: History.....

- Most HF's in that era "Leveraged Long" rather than true "hedging"
- This hurt them in the Bear Market of '73-'74.....
- New Hedge Fund formations stopped...only 68 in 1984

Hedge Funds: History...

- The 90's!!!!
- Soros "Quantum Fund"
- Robertson "Tiger Fund"
- Other "Non-Jones-Model" Hedge Funds (Derivatives, Futures, etc...)

Hedge Funds: History...

- 1998 - Long-Term Capital Management
- 1999-2000: "The Bubble"
- 2000 - Today: "The Aftermath..."
- So, back to "the Dark Ages?????"
-
- ...

Hedge Funds: Today

- NO!!!
- Per Tremont, there is approximately \$600 Billion in Hedge Funds, with approximately \$6.8 Billion flowing into Hedge Funds in the 3rd Quarter alone!

Hedge Funds: Outperformance

- DJIA (thru 10/31/02): -16.21%
- S&P 500 (thru 10/31/02): -21.84%
- NASDAQ (thru 10/31/02): -31.82%
- Per Tremont: (thru 10/31/02)
 - Short Bias 20.56%
 - Global Macro 12.31%
 - Market Neutral 6.21%
 - LSE - 2.89%

Hedge Funds: Investor Viewpoint

What do Investors in Hedge Funds look for?

- 1. Pedigree of Manager
- 2. Investment Process
- 3. RISK MANAGEMENT!!!!!!
- 4. Transparency

Hedge Funds: Reasons for “Reallocation of Assets”

2 Main Reasons for Shifts within the same strategy:

- 1. Poor Performance
- 2. Style Drift

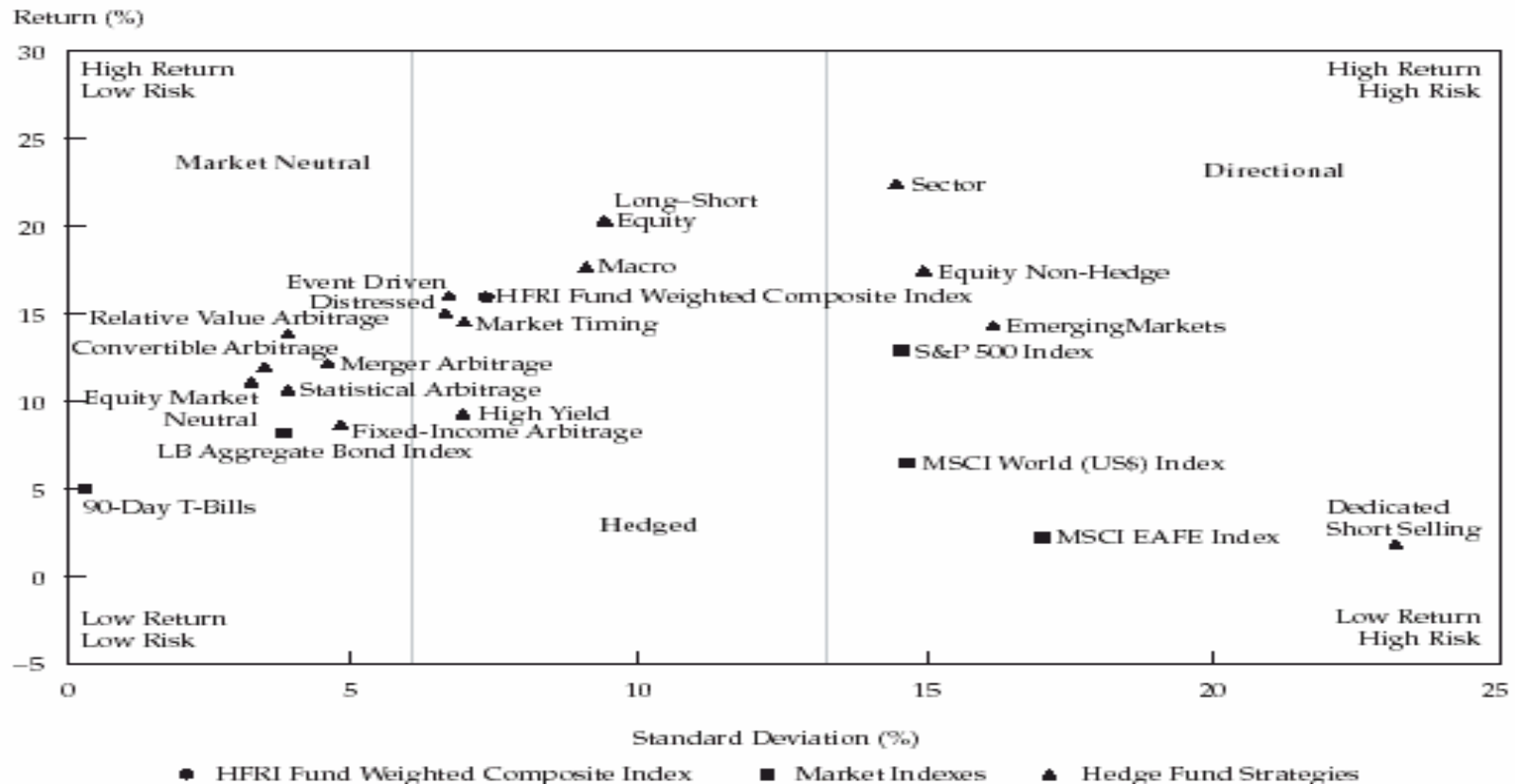
Hedge Funds: Shift in Assets

Strategies on the move...

- “Market Neutral” Funds
- “Distressed” Funds
- Long/Short Equity (Value)

Hedge Fund Strategies

Figure 2. Risk versus Reward for Various Hedge Fund Strategies and Market Indexes, 1990–2001



Note: Returns shown are average monthly returns, net of fees.

Source: Hedge Fund Research, Inc.

Hedge Funds: Shifts in Assets.....

Strategies “Out of Favor”

- Very Long Biased
- Merger Arbitrage
- Emerging Markets
- Sector Specialists

Hedge Funds: What to Expect

- More retail products
- More “Blow-ups”
- More bad press - WSJ, etc...
- Higher Management Fees!!!
- Longer Lock-ups
- More Regulation
- More Transparency
- More Outperformance!!!

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