

MFA Reporter

September 2001

Reporting on issues for investment professionals in futures, hedge funds and other alternative investments

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MANAGED FUNDS ASSOCIATION

Dear Members:

On behalf of all of us in the alternative investment industry, we offer our heartfelt sympathy and condolences to the many families, friends and colleagues around the world who have been harmed and saddened by the recent outrageous terrorist acts.

We thank the dedicated firemen, police officers, medical professionals, rescue workers and volunteers for their unselfish devotion to saving lives. We hope for an end to the suffering caused by these appalling acts in New York, Washington D.C. and Pennsylvania.

Sincerely,
 Managed Funds Association

MFA in Washington

The Agenda on Capitol Hill after the Terrorist Attacks

By Patrick J. McCarty, MFA General Counsel

The September 11 terrorist attacks, which demolished the World Trade Center and damaged the Pentagon, are having a profound effect on Capitol Hill. The tone is quite different. Gone for the time being is the partisan rhetoric. The Hill – Democrats and Republicans – is pulling together behind the President to come up with a united response. The first step is \$40 billion in emergency aid, which was put together in less than a week, and is already signed into law. The two sides are now talking with each other and the Administration about what to do about terrorism as well as an economic stimulus package. The focus and agenda have changed dramatically, as it should. It appears that true bi-partisanship has a chance of springing from this terrible tragedy.

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MFA in Washington, cont'd.

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Labor Day normally signals the end of summer, and also signals the true beginning of the Appropriations Season on Capitol Hill. The Government runs on a fiscal year from October 1, 2001 to September 30, 2002. While the budget has already been passed, the 13 Appropriation bills, which will fund the Government for the coming year, are not finished. September, and the early part of October, is

Appropriations Season. Based on the new found unity in the aftermath of the terrorist attack, I look for Congress and the White House to approve Appropriation bills with much less rancor than usual – probably by mid-October. Very little action will occur on financial services legislation due to the terrorist issues and September 30, 2001 deadline for funding the Government.

While Congress and the White House are busy with spending issues, the regulatory agencies will continue to promulgate rules, issue interpretations and approve or deny applications. The SEC and CFTC were extremely busy churning out rules with respect to security futures. As you will remember, institutional trading of security futures was permitted to begin on August 21, 2001 with retail trading to begin on December 21, 2001. The Commissions are working together to get the required rules regarding listing, margin, registration, definition of narrow based security futures indexes, etc. out in time. For more information on these rules visit MFA's Web site – Washington Watch – which lists several of the proposed and final rules, or use the links to the SEC and CFTC Web sites.

Senate Democrats are clearly on the rise. In May, the Senate switched from Republican to Democratic control when Sen. Jim Jeffords left the Republican Party. This change led to Sen. Tom Daschle (D. SD) becoming the Majority Leader and controlling what bills come to the Senate Floor for consideration. In addition, Democrats took over the Chairmanships of all the Senate Committees. The Republicans hope of recapturing the Senate was dealt significant blows over the last month as Sen. Jesse Helms (R. NC) and Sen. Phil Gramm (R. TX) announced their retirements from the Senate. Other Republican Senator retirement announcements are expected, with Sen. Fred Thompson (R. TN)

being widely mentioned. This turn of events appears to solidify the Democrats chances of maintaining control of the Senate after the 2002 mid-term elections.

I encourage MFA members to visit the MFA Web site to see our updated information including a chapter on hedge funds authored by Scott J. Lederman, Partner, Grosvenor Capital Management, L.P. This document – which is part of a legal treatise on *Financial Product Fundamentals* produced by the Practising Law Institute – provides an excellent summary of the legal issues one needs to consider when forming or operating a hedge fund in the United States. This, and other documents, is just a part of our continuing effort to expand the usefulness of the MFA Web site for

MFA members. Please feel free to forward any thoughts or suggestions to me at patrickm@mfa.info. ■



While Congress and the White House are busy with spending issues, the regulatory agencies will continue to promulgate rules, issue interpretations and approve or deny applications.



MANAGED FUNDS ASSOCIATION

The *MFA Reporter* is the monthly newsletter of the Managed Funds Association. Its purpose is to publish the most useful and timely news and ideas from the most knowledgeable industry professionals.

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Systematic Strategies in the Commodity Futures Markets

By Hilary Till, Principal, Premia Capital Management, LLC

Author's note: This is an updated version of an article, which was originally published in the Fall 2000 Derivatives Quarterly journal

Since the Goldman Sachs Commodity Index (GSCI) was launched in 1992, the arguments for why a basket of long commodity futures contracts should have positive returns have been well chronicled. What has not been very well publicized is that there are additional, unrelated return opportunities in the commodity futures markets, which can be discovered empirically and understood theoretically.

This article will begin by discussing which particular commodity futures contracts one can expect systematic positive returns from a long investment. The article will then discuss return opportunities in other commodity futures markets whereby one shorts systematically overvalued futures contracts. The article will conclude by noting that the lack of correlation among these strategies means that one can potentially set up surprisingly low-risk portfolios of futures strategies.

Systematic Long Commodity Futures Program

The explanation for there being returns in a long commodity futures program usually starts with Keynes' *A Treatise on Money*. Keynes [1935] wrote that spot commodity prices are so volatile that a producer will sacrifice returns in order to hedge himself against the:

“risk of price fluctuations during his production period. Thus in normal conditions the spot price exceeds the forward price, i.e., there is *backwardation*. In other words, the normal supply price on the spot [market] includes the remuneration for the risk of price fluctuations during the period of production, whilst the forward price excludes this.”

The Keynes hypothesis holds that substantial producer hedging pressure causes the forward price of certain commodity futures contracts to fall to a discount to the spot commodity price. One implication of this hypothesis is that an investor who buys discounted commodity futures contracts may expect to earn a return due to taking on price risk that

inventory holders wish to lay off.

The careful reader of the Keynes hypothesis may wonder whether the suggested return opportunities are limited to commodity futures contracts that normally trade in *backwardation*. To review commodity-specific terminology, a commodity futures curve is in “backwardation” if either the commodity's spot price is trading at a premium to its futures contracts or if a near-month commodity futures contract is trading at a premium to deferred futures contracts.

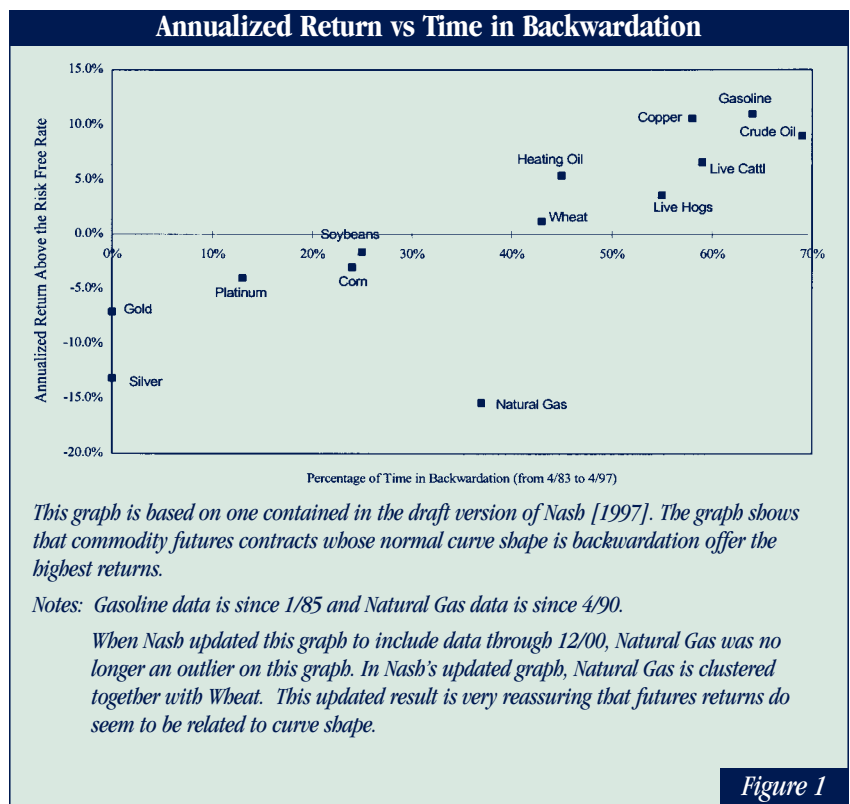


Figure 1

Based on recent historical data, Nash [1997] confirms that positive return opportunities are confined to commodity futures contracts that normally trade in backwardation:

Nash [1997] notes that the chart illustrates a further point:

“The return on a commodity index is proportional to the amount of time the commodity is in backwardation.”

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Systematic Strategies

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From both Keynes' hypothesis and Nash's empirical study, one would conclude that an investor should confine their long investments to those commodity futures contracts that typically trade in backwardation. These are the contracts for which one is paid to take on volatile price risk. Given the lack of returns in the other contracts, it does not appear that an investor is serving an economic purpose by being systematically long non-backwardated futures contracts.

Systematic Short Commodity Futures Program

We have found that a careful empirical study of commodity futures price patterns can reveal systematic return opportunities among a number of commodity futures contracts that are *not* normally backwardated. Moreover, one earns these returns by systematically shorting these contracts during well-defined times of the year.

In order to discover this class of trades, we had to first have a framework for understanding the economic function of commodity futures markets. Having access to substantial computing power was not enough to make this discovery. Mehta [2000] quotes the co-founder of the Prediction Company, Doyne Farmer, about the difficulties in relying solely on quantitative techniques to discover investment opportunities:

“We started out assuming that simply using sophisticated time-series techniques would give us a clear advantage that would allow to make profits,” Farmer says now. “But we found there were no magic bullets. We had to think harder about how the markets worked and structure our models to make the data to speak to us. The data didn't speak to us automatically.”

In our case, we examined whether weather-sensitive commodity futures contracts exhibit any detectable empirical regularities around key weather events. We found that they did, and that they are systematically overvalued at particular times of the year. This means that an investor has been able to earn statistically significant profits by being short these commodities preceding key weather events for these commodities. The weather-sensitive contracts for which such return opportunities are available include the grains, cotton, coffee, and natural gas futures markets.

In another article (Till [2000]), we called this class of trades, “the weather fear premium” strategy:

“A futures price will sometimes embed a fear premium due to upcoming, meaningful weather events. One cannot

predict the weather, but one can predict how people will systematically respond to upcoming weather uncertainty.

In this class of trades, a futures price is systematically too high, reflecting the uncertainty of an upcoming weather event. We say the price is too high when an analysis of historical data shows that one can make statistically significant profits from being short the commodity futures contract during the relevant time period. And further that the systematic profits from the strategy are sufficiently high that they compensate for the infrequent large losses that occur when the feared, extreme weather event does in fact occur.”

Our hypothesis for why these empirical regularities exist is as follows. Particularly for the grain and natural gas markets, the economy cannot tolerate threats to either the food or energy supply, so the market adds a premium to the futures price around the time of potential weather shocks to ration demand. Further, the commercial commodity trade can be well aware of this return opportunity with no danger of it disappearing. This is because in order to take advantage of these positive expected-value opportunities, they would have to absorb volatile price risk that would impair their ability to carry out essential business planning.

The following will discuss several examples of weather-premium trades.

Coffee

Starting about May, there are fears of a frost in Brazil, which would adversely affect coffee production. A systematic trade is to short coffee futures from late May to late June. The historical likelihood of a frost increases from

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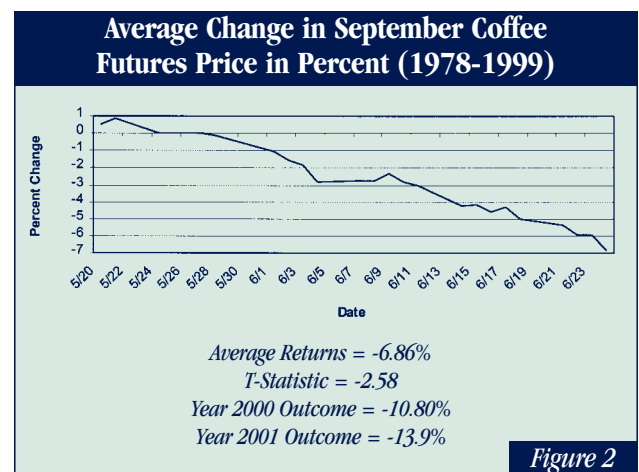


Figure 2



Impetus Behind Huge Hedge Fund Growth

By Lois Peltz, President and CEO, Infovest21

Over the last few years, the number of hedge fund managers and assets under management has soared. Estimates are now about 6,000 hedge fund managers and global assets at \$400 billion. A significant amount of the growth occurred in 1999, 2000 and 2001 despite the problems caused by Long-Term Capital Management's near collapse in late 1998.

The choppy/negative stock market performance in 2000 and 2001 is the major reason for fueling the growth. In 2000, the S&P fell 9.4% while Nasdaq fell 39.7%. For the first half of 2001, the S&P was down 7.3% and Nasdaq was down 12.6%. The non-correlation characteristics hedge funds have with traditional markets proved attractive to endowments, foundations, pensions as well as family offices and other private investors. In 2000, the CSFB/Tremont index was up 4.8% and for the first half of 2001, up 2.1%. Institutional interest is taking place on a worldwide basis.

Smaller retail investors are also investing in hedge funds through fund of funds and products being developed for affluent investors. This is a secondary factor in hedge fund growth.



The volatile and poorly performing global stock market encouraged more institutions to look toward alternative investments to find potentially low-correlating diversified return/risk strategies to boost long-term returns.

U.S. Institutional Interest

The volatile and poorly performing global stock market encouraged more institutions to look toward alternative investments to find potentially low-correlating diversified return/risk strategies to boost long-term returns. The strong correlation between the stock market and private equity dampened the interest for private equity, also pushing more pension plans to look at hedge funds. Private equity funds were also negatively affected by the telecommunications media and technology slump and haven't performed well in 2001.

Since California Public Employees Retirement System, the largest U.S. pension plan with \$170 billion in assets, announced its interest in hedge funds in August 1999, its moves were widely watched by other pension plans throughout the world in its pioneering role in hedge funds. On May 9, 2001, CalPERS proposed Blackstone Alternative

Asset Management as a strategic partner to assist in allocating \$1 billion in investments in hedge funds.

CalPERS' allocations added credibility to the hedge fund community; others became interested. For example, in May 2000, Public School Teachers' Pension and Retirement Fund of Chicago announced its interest in adding \$600 million to its hedge funds and emerging managers program. This fund increased its alternative investments commitment to 4%.

New York State Teachers Retirement System, a \$91 billion fund, indicated they were researching the concept and would invest as much as \$1 billion in the sector too. The \$1.4 billion Oklahoma Firefighters Retirement System

announced plans to allocate \$100 million to hedge funds. In late 2000, the \$6.5 billion Louisiana State Employees Retirement System approved a 1% commitment of assets to invest in merger arbitrage. San Francisco City and County Employees Retirement System took a step toward hedge fund investing in April 2001. After reviewing a preliminary report, the board is taking a look at high-return strategies via a fund of funds with a 4-5% allocation.

Strong Endowment Interest in U.S.

Endowments were the most active institutional group allocating to hedge funds over the last decade. This is largely due to investment committee members who are already familiar with the concept as high-net-worth investors. Endowments and foundations have a history of moving into new types of investments quicker than pension funds.

The National Association of College and University Business Officers (NACUBO) started to include hedge funds in its endowment survey in 1994. At that time, the average endowment allocation to hedge funds was 0.4%. By 2000, over 115 U.S. colleges and endowments out of the 568 participating allocated to hedge funds. The average allocation had grown to 4.7% from 2.3% in the prior year.

A large variation exists in the percent allocation by the individual colleges. For example, SUNY Stony Brook allocates 64% of its endowments to hedge funds. Others allocating

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Impetus Behind Huge Hedge Fund Growth

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over 20% include Yeshiva (57%), Reed (45.4%), Alfred (30.0%), Bowdoin (29.7%), Andrews (25.2%), Denison (22.8%). Some other colleges make no allocation whatsoever to hedge funds.

Size of the endowment is a significant factor in the proportion of the alternative investment allocation. The statistics indicate the larger endowments had higher returns because they were much more heavily invested in alternatives. The \$1 billion plus group had an average of 29.6% of assets in alternative investments while those with less than \$100 million had 3.3% allocated to alternative investments. The endowments that have the capacity to absorb greater risk because they are larger took better advantage of alternative investments and it paid off in 2000.

Europe

It is only a matter of time before European pension funds substantially raise their allocations to alternative investments, say Watson Wyatt Partners, global investment consultants. The firm contends a pension fund shift is occurring towards selective allocations in hedge funds and private equity. A recent survey by Watson Wyatt and Indocam, concluded that Continental European pension funds may invest almost 5% in alternative asset classes by 2003 equivalent to euro 11.8 billion (\$10.8 billion).

This compares with the current average allocation of less than 1% of assets for pension funds in Continental Europe (except for Switzerland). Watson Wyatt saw growing interest in hedge funds and private equity in Switzerland, Denmark, the Netherlands and Sweden.

“Switzerland currently accounts for at least half of the \$50 billion invested in European hedge funds,” estimates Kurt Lambert, chief executive officer of Zurich-based Harcourt Investment Consulting. Following changes in Swiss pension law in 2000, he predicts Swiss pension stakes in hedge funds will rise to half of the Swiss total of more than \$25 billion within three to four years. The present proportion is 5% to 10%.

The amendment in the Swiss pension fund law recognizes hedge funds as a separate asset class. The Swiss Bankers Association also officially recognized hedge funds by approving their allocation into discretionary portfolio management.

Names of Swiss insurance companies allocating to hedge funds include Swiss Life, Zurich Insurance, Winterthur, Helvetia Patria. The City of Zurich pension fund has CH6.5 billion (\$3.8 billion) in assets and is investing about 2.5% of the assets in hedge fund of funds. Nestle and Swiss Air are two other Swiss pension funds allocating to hedge funds. Nestle has 5% or CH350 million (\$205 million) of its CH7 billion (\$4.1 billion) assets in hedge funds.

In England, Wellcome Trust, Europe's largest dedicated medical research charity with assets of \$18 billion, began investing a small proportion of assets to hedge funds. The aim is to emulate hedge fund investment tactics of U.S. charity foundations. The charity was originally formed from an endowment donated by the founder of the giant pharmaceuticals company, Glaxo Wellcome.

In 2001, AstraZeneca became the first UK pension fund to

announce its allocation to hedge funds, allocating 3-4% or about 70 million (\$100 million) in a fund of funds.

Japanese Appetite is Strong

Japanese institutions are increasingly allocating to hedge funds due to lack of investment opportunity in a very low interest rate environment and a negative carry problem. At the time of the stock market bubble, life insurance companies and casualty insurance companies raised money from mutual fund investors, promising very attractive returns. As interest rates fell sharply, negative carry occurred. To fill the gap, some Japanese insurance companies are investing in hedge funds.

Institutional investment in hedge funds is expected to increase 40% this year to 1.3 trillion yen (\$10.8 billion), according to The Nihon Keizai Shimbun. The number of institutional investors in Japan now totals about 200.



Endowments were the most active institutional group allocating to hedge funds over the last decade. This is largely due to investment committee members who are already familiar with the concept as high-net-worth investors.

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A Model for Calibrating Manager Performance

By Tushar Chande, President, LongView Capital Management, L.L.C.

Introduction

The three unknowns about the future performance of any money manager, or trading system, are expected returns, the depth of drawdowns and the duration of drawdowns. One merely needs reasonable estimates for these three unknowns to confidently invest with that manager or trade the system. These estimates also provided the basis of a risk control plan, that can be invaluable in developing the confidence necessary to stick with a manager through drawdown periods. When plotted in three dimensions, the graphical representation defines a “box” or “Chande Comfort Zone (CCZ),” developed by Tushar Chande, that can be used to monitor performance and answer difficult questions about whether the system has “stopped working.” We begin by defining a benchmark for returns, and developing an estimate for expected returns. Then we will show how to estimate the depth of drawdowns, followed by the duration of drawdowns. This information is then integrated to discuss the CCZ and develop detailed estimates of risk control parameters.

A Benchmark for Long-Term Returns

We begin by defining a benchmark for long-term returns using the monthly Sharpe ratio with risk free rate set to zero. We call this the return efficiency (ρ) because it measures the return generated by the manager per unit of risk accepted by the investor.

$$\text{Return Efficiency } (\rho) = \frac{\text{Average Monthly Returns } (\mu)}{\text{Standard Deviation of Monthly Returns } (\sigma_M)} \quad (1)$$

Note that the ratio $\rho = \mu / \sigma$ has been identified with numerous labels in the literature, including return variation ratio, information ratio and modified Sharpe Ratio. We prefer the label return efficiency, analogous to the m.p.g. or miles-per-gallon for a car, simply because it measures how effectively a manager (the engine of the return generation process) converts the fuel (risk borne by the investor) into returns for the investor. A study of the long-term returns for commodity trading advisors (CTAs), hedge fund managers and stocks suggests that a good benchmark value for return efficiency is 0.25 (see Tables 1 and 2). The simulated returns of a simple channel breakout system on a diversified portfolio over the long term has an 0.22 return

efficiency approximately. Hence, we can comfortably suggest that a reasonable benchmark value for return efficiency is

$$\rho_{BM} = 0.25. \quad (2)$$

Notice that Tables 1 and 2 suggest it is relatively difficult to exceed the benchmark over the long-term, and a manager exceeding this benchmark is adding significant value.

Estimating Expected Annual Return

We estimate expected return by compounding the average monthly return (μ) as follows.

$$R_E = 100 * ((1 + .01\mu)^{12} - 1) (\%) \quad (3)$$

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Table 1: Long-Term Performance of Stock Indexes 1979-1999

	Annual Stdev	Avg Annual Return	Avg Monthly Return	Monthly Stdev	Return Efficiency
MSCI EAFE Index	17.41%	14.79%	1.16%	5.03%	0.23
Russell 1000 Growth Index	17.02%	17.82%	1.38%	4.91%	0.28
Russell 1000 Value Index	14.12%	16.78%	1.30%	4.08%	0.32
Russell 2000 Small Cap Index	18.90%	13.96%	1.09%	5.46%	0.20
Diversified Equity	14.46%	16.90%	1.31%	4.17%	0.31

Table 2: Performance of Various Commodity and CTA Indexes (Jan 1990 thru Dec 2000)

	Monthly Average Return (%)	Monthly Standard Deviation (%)	Return Efficiency
CRB Index	0.04%	2.23%	0.02
Goldman Sachs Commodity Index	0.71%	5.31%	0.13
International Traders Research (ITR) Premier 40 Index	0.94%	3.70%	0.25
Lehman Brothers Bond Index	0.79%	2.27%	0.35
MAR Index	0.98%	3.00%	0.32
Barclay Unweighted CTA Index	0.99%	3.22%	0.31



A Model for Calibrating Manager Performance

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For example, if the average monthly return is 1 percent, then the annual expected return is 12.7 percent approximately. This equation, though well known, becomes more interesting when we substitute for the expected value of average monthly return, μ from equations (1) and (2) above as follows:

$$\mu = \rho\sigma = \rho_{BM}\sigma = 0.25\sigma_M \quad (4)$$

Now we can substitute for the average monthly return into equation (3) to get:

$$R_E = 100 * ((1 + 0.01 \rho_{BM} \sigma_M)^{12} - 1) (\%)$$

$$R_E = 100 * ((1 + 0.0025 \sigma_M)^{12} - 1) (\%) \quad (5)$$

Equation (5) is valuable because it shows the direct connection between the volatility of a manager and the expected returns via return efficiency. These equations say in order to obtain higher returns, an investor must bear greater risk (higher σ) or find a more efficient manager (high ρ). For example, if a manager has a monthly standard deviation of 5 percent, we should reasonably expect annual returns of 16 percent approximately.

Estimating Depth of Drawdowns

Our research into estimated drawdowns is based on an analysis of monthly returns of CTAs, hedge funds, stocks and mutual funds. Hence, when we refer to peak-to-valley-drawdowns (PVDD or Δ), we are measuring drawdowns on a month-end basis. This typically shows also how the official values are calculated for reporting purposes. Our research into the PVDD reported by 110 CTAs is shown in Figure 1. Notice how the worst PVDD increases as the σ_M increases. A linear regression through the origin had slope of 2.84 approximately. Thus, to a good approximation, the PVDD was $3\sigma_M$, and usually less than $4\sigma_M$. We will be conservative and write the relationship as follows:

$$\Delta = 4\sigma_M \quad (6)$$

Our research shows similar curves for hedge funds and even mutual funds. This is a significant observation with important implications for risk control,

because for CTAs and hedge funds the leverage can be adjusted to match the drawdown preferences of the investor.

The Connection Between “Worst” Drawdown and Expected Returns

Since we know how to relate the PVDD to the volatility of the manager, we can work backwards and plug this value into an expected return equation. The return efficiency of the manager converts the “worst” drawdown desired by an investor into potential future returns for that investor. To further clarify this idea, we substitute for σ_M from equation (6)

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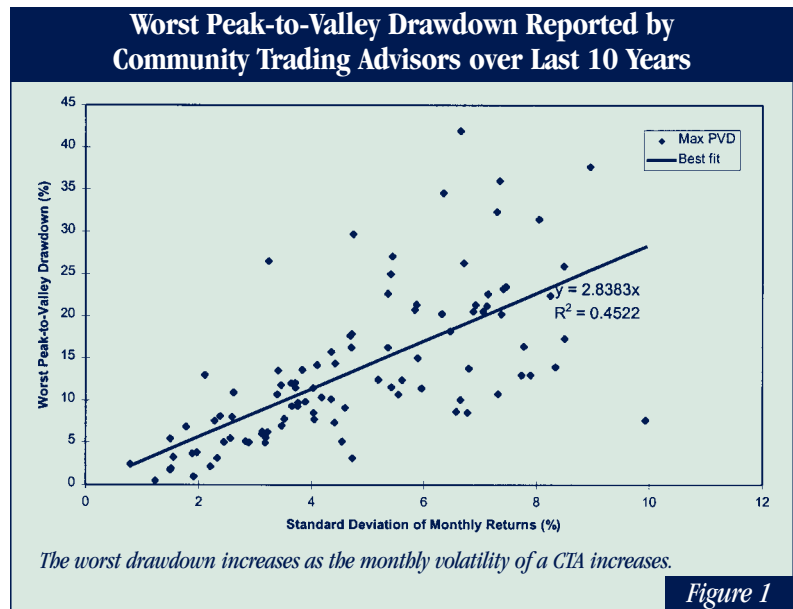


Figure 1

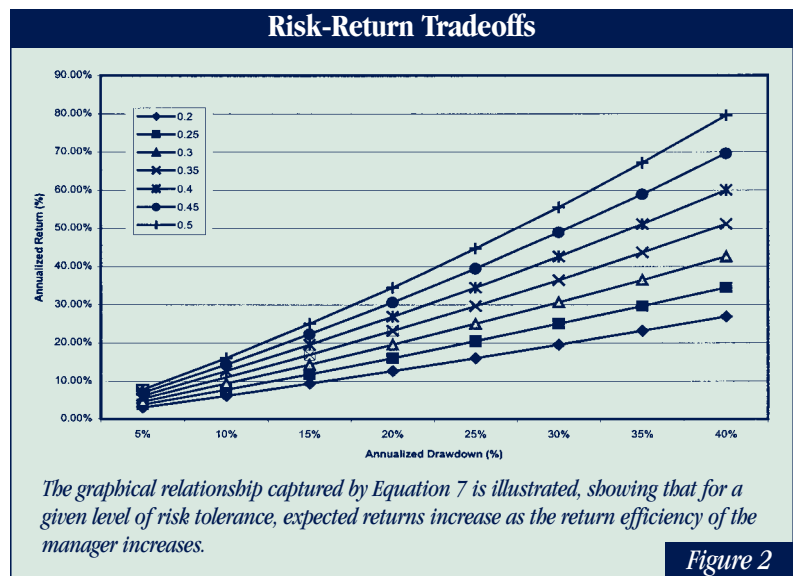


Figure 2



A Model for Calibrating Manager Performance

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$$R_E = 100 * ((1 + .01 \mu)^{12} - 1) (\%)$$

$$R_E = 100 * ((1 + .01 \rho \sigma_M)^{12} - 1) (\%)$$

$$R_E = 100 * ((1 + .01 \rho \Delta / 4)^{12} - 1) (\%)$$

$$R_E = 100 * ((1 + .0000625 \Delta)^{12} - 1) (\%) \quad (7)$$

Equation (7) shows the direct relationship between the worst drawdown an investor is willing to live with (Δ), or their threshold of pain, and the expected return (see Figure 2). Figure 2 shows that for a given drawdown target acceptable to the investor, the expected returns increase as the return efficiency of the manager increases. For example, if the investor is willing to accept a 20 percent drawdown, and the manager had a return efficiency of 0.25, then the investor can expect a return of approximately 16 percent. Once again, to obtain higher returns, an investor must accept greater risk (higher Δ), or find a manager with a higher return efficiency (ρ).

Estimating the Duration of Drawdowns

There are two approaches one can use to estimate the duration of drawdowns. We start by identifying the lengths of every drawdown period or “string” in the track record of the manager or trading program. This data can then be fitted to an exponential distribution, or we can calculate σ_{dd} , the standard deviation of the lengths of drawdown strings (in months). Our analysis shows to a good approximation,

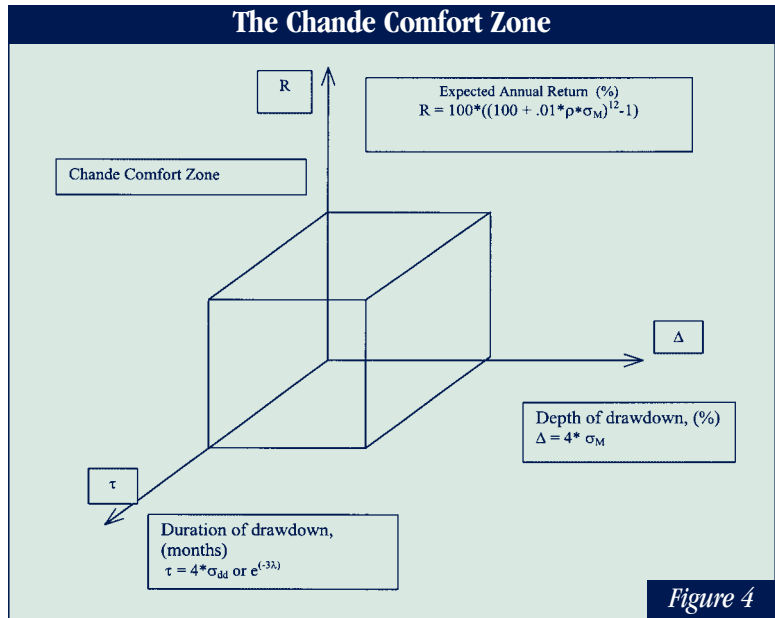


Figure 4

τ , the duration of the longest drawdown can be expressed as follows (see Figure 3):

$$\tau = 4\sigma_{dd} \quad (8)$$

Chande Comfort Zone

We now have the tools to estimate the three key unknowns about future system performance: expected returns, and the depth and duration of drawdowns. Our estimates are the “upper-bound” of values we can reasonably expect; they do not predict the actual values that will be actually realized in the future. We can plot these three quantities using a three-dimensional grid to define a “box” or Comfort Zone within which we can reasonably expect our performance. Remember, it is possible to realize results outside this box under particularly favorable or unfavorable conditions.

Figure 4 shows the general shape of the box, and its value lies in allowing you to decide if you are comfortable with the proposed dimensions of the box. If you are comfortable, you should be able to stick with your investment strategy for a “long” time without actively seeking modifications. If you are not happy with the box, you can reshape it to meet your needs.

For example, let us assume the projected drawdown for a particular strategy is 30%, but you

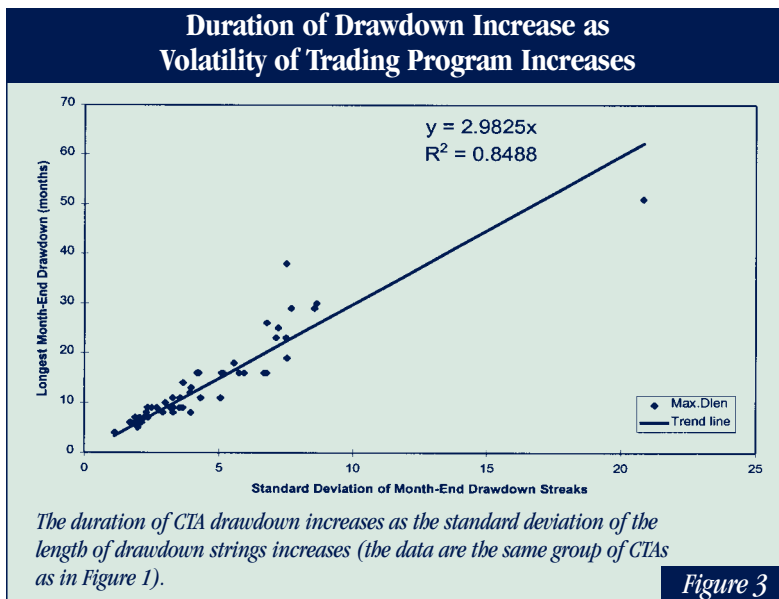


Figure 3

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Media Perception of the Alternative Investment Industry — You Haven't Come a Long Way, Baby

By Meg Bode, MFA PR Consultant

“Quick! Give us three adjectives you would use to describe the hedge fund industry.” That was Hunt Taylor’s initial query when he led five prominent business journalists through an hour and a half Q & A designed to examine media perception of the industry at *Forum 2001*.

It was a rare opportunity for alternative investment pros to get a glimpse of the people who write about them and to find out why the media’s portrayals of the industry are so capricious. (inconsistent? uneven?)

The panel consisted of Matthew Bishop of *The Economist*, Katherine Burton of *Bloomberg News*, Joshua Chaffin of the *Financial Times*, Ron Insana of *CNBC* and Gregory Zuckerman of *The Wall Street Journal*. Hunt Taylor, who moderated the session, is the director of investments of Stern Investment Holdings, host of the Internet-based radio program “The Alternative Investor,” chairman of the MFA Public Relations Committee and, as we learned at *Forum 2001*, the son of a journalist, making him eminently qualified to interview the press.

Back to the first question: what adjectives did the journalists use to describe the industry? They said “plentiful,” “aggressive,” “too secretive,” “arrogant,” “expensive,” “sophisticated,” “popular,” “cocky,” “confident,” “risky,” “highly-leveraged” and “victimized.”

Mr. Taylor found it interesting that no one mentioned the once ubiquitous adjective “high-flying” which, he told the crowd, was the single most widely used descriptive of hedge funds during 1998.

The panel went on to explore the relationship between the evolution of financial media and the growth of alternative investments, and touched on a wide array of topics including:

- A discussion of the dynamic between the proliferation of financial media and how the business of business news influences the behavior of markets.
- The changing nature of journalism – from the days when patriarchal media moguls like Katherine Graham and William Paley set the tone, to the present environment where financial conglomerates serve the Gods of shareholder value.
- The internal battles between reporters and their executive editors during the process of shaping the final product.



A view shared by all of the journalists on the panel is that many managers “hide” behind the SEC restrictions on marketing and refuse to discuss performance while others talk openly about strategies and returns.

- The changing image of hedge funds – from the “high-flying bad-boys of global finance” to the “darlings of institutional investors” who are looking to boost returns in the wake of falling equity markets.
- And, most importantly, the benefits and the pitfalls of talking openly with the press.

Perhaps the most useful criticism of the industry – a view shared by all of the journal-

ists on the panel – is that many managers “hide” behind the SEC restrictions on marketing and refuse to discuss performance while others talk openly about strategies and returns.

“I’ve interviewed all the top managers on our program over the years, and they all talked with us about their returns,” said Ron Insana, anchor of *CNBC’s Street Signs* and co-anchor of *Business Center*. “And none of those guests ever got in trouble with the SEC.”

Joshua Chaffin of *Financial Times* chimed in, “Hedge fund managers call me all the time to tout their wares.” Greg Zuckerman of *The Wall Street Journal* nodded in agreement,

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The Economic Growth and Tax Relief Reconciliation Act of 2001: What It Means to the High-Net-Worth Individual

By Scott Anderson and Susan A. McGovern,
Arthur F. Bell, Jr. & Associates, L.L.C.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (the Act), signed by President Bush on June 7, 2001 contains \$1.35 trillion in tax breaks. But, what does the Act mean to you as an individual taxpayer, probably paying tax at the highest tax rates, and what actions are necessary to take advantage of the new provisions? The following highlights the tax provisions of the Act that effect high-net-worth individuals.

Tax Rate Reduction: providing \$874.9 billion of relief

Before the Act, the lowest individual income tax rate was 15%. The Act creates a new 10% tax bracket. The 15% tax rate continues to apply to taxable income in excess of the amounts subject to the 10% rate, up to the maximum dollar amounts for the 15% tax bracket.

Under the Act, each individual income tax bracket that is higher than the 15% bracket will be reduced as follows:

Tax years beginning during:	28% rate reduced to:	31% rate reduced to:	36% rate reduced to:	39.6% rate reduced to:
2001	27.5%	30.5%	35.5%	39.1%
2002-2003	27%	30.0%	35.0%	38.6%
2004-2005	26%	29.0%	34.0%	37.6%
2006 and later	25%	28.0%	33.0%	35.0%

The planning tip with income tax rates dropping is rather basic; income should generally be deferred and certain expenses should be accelerated. Obviously, this general rule applies even without the gradual lowering of rates, but the benefits of this strategy are increased with the gradual reduction of rates. In addition, introduction of the 10% tax bracket enhances the value of income shifting to family members who have little or no income. A taxpayer in the 30% bracket

in 2002 who can shift income to a child or grandchild age 14 or older (and thus not subject to the kiddie tax), may be able to reduce the tax on that income to 10%.

Personal Exemption and Itemized Deduction Phase-Outs Repealed

While the calculations differ, both personal exemptions and itemized deductions are reduced when adjusted gross income (AGI) exceeds certain inflation adjusted thresholds. The personal exemption and the itemized deduction phase-outs will be reduced by one third in 2006 and 2007, by two thirds in 2008 and 2009, and completely eliminated in 2010. Generally, there is not much planning available with personal exemptions since the facts and circumstances of each taxpayer's personal situation will usually dictate the available exemptions. We previously mentioned certain expenses should be accelerated, but depending on your facts and circumstances, there may be a benefit to deferring expenses that will be reported as an itemized deduction, so that such deductions are not limited.

Alternative Minimum Tax (AMT): providing \$13.9 billion in tax relief

More and more people find they are subject to AMT and one of the reasons is the exemption amount provided under the AMT tax system was not inflation adjusted. Effective for tax years beginning after 2000, the Act increases the AMT exemptions. These increased exemptions will provide AMT relief, but only until 2005 when the old, lower exemption amounts again will apply, unless the law is changed. Consideration should be given to utilizing the higher exemptions from 2001-2004 by determining when to recognize certain income or expense items qualifying for tax preferences or adjustments in the AMT calculation.

Education Incentives: providing \$29.4 billion in tax relief

Education IRA

Contributions to tax-exempt education IRAs are not deductible, but distributions for an individual beneficiary's qualified higher education expenses are tax-free. After 2001, the Act increases the per beneficiary contribution limit from \$500 to \$2,000 per year. Due to the \$500 annual limitation, certain taxpayers simply did not want to bother with establishing another brokerage account. The increase of the annual limit to \$2,000 should probably provide more incentive for taxpayers to take advantage of this opportunity.

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Systematic Strategies

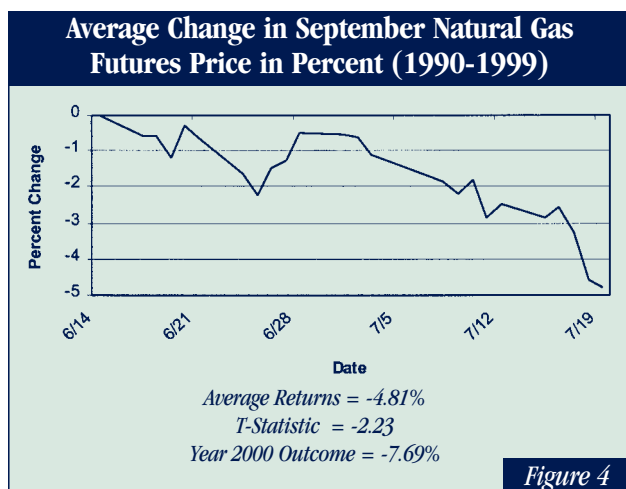
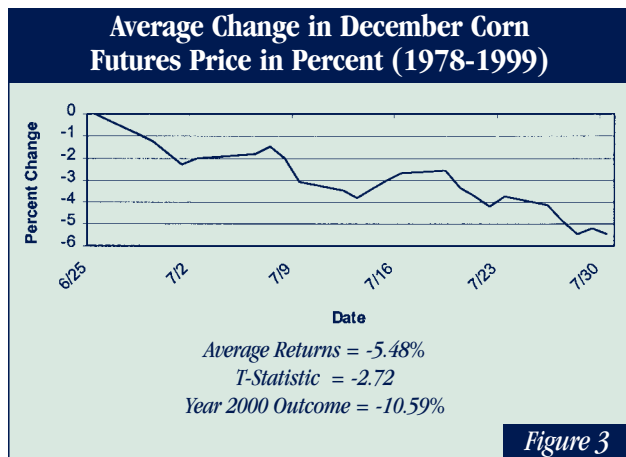
continued from page 4

late June. This trade has been very consistent historically, indicating that its historical profitability is unlikely due to randomness. And in fact, we believe that its consistent profitability is due to the weather fear premium being embedded in the futures contract, which erodes day by day as the feared weather event does not occur.

Corn

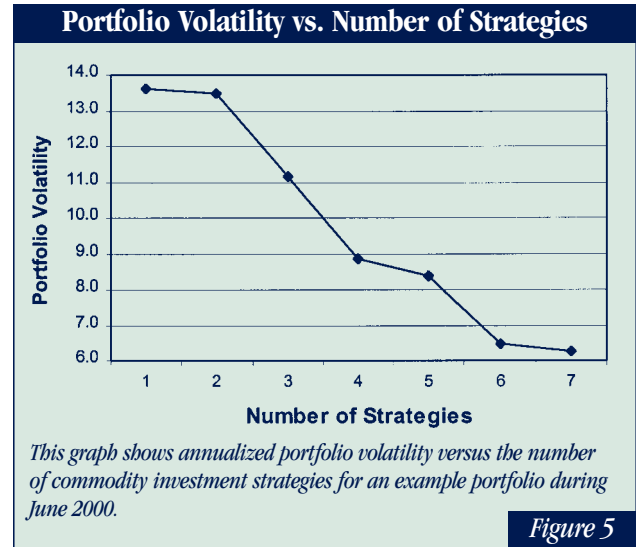
A second example is corn. Its key pollination period is about the middle of July. If there is adverse weather during this time, new-crop corn yields will be adversely affected. This means that the new-crop supply would be substantially lessened, dramatically increasing prices.

A systematic trade is to short corn futures from June through July. Historically there has been too high a premium embedded in corn futures contracts during the pre-pollination time period.



Natural Gas

A third example is natural gas. In July, there is fear of adverse hot weather in the U.S. Northeast and Midwest. Air conditioning demand can skyrocket then. From June to mid-July, a systematic trade is to short natural gas futures contracts at the height of a potential weather scare.



Portfolio of Unrelated Commodity Strategies

An investor can potentially take advantage of these opportunities because of the portfolio effect of combining many unrelated risks. Conversely, an undiversified, commercial commodity entity that is solely exposed to the riskiness of an individual commodity market probably cannot take full advantage of this type of trade.

A recent commodity portfolio from June 2000, which combined long, hedge-pressure trades with short, weather-fear-premium trades, illustrates the effect of incrementally adding these unrelated trades on portfolio volatility:

Conclusion

As in all strategies that exploit structural phenomena, one can certainly choose to passively invest in the weather-premium strategy, expecting to earn a positive return over time. Alternatively, one can also create quantitative models, incorporating fundamental and technical data, so that one can judge if weather-sensitive futures contracts are especially over-valued, if at all, in a particular year. One would certainly do this in an actively managed commodity futures program.

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Systematic Strategies

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We also note that there are other active decisions for pursuing the type of strategies mentioned here. A manager must decide how much to leverage the strategy, how many reserves to set aside in the event of a catastrophic event, and whether to give up any returns by hedging out some of the strategy's extreme risks.

We conclude by noting that we believe that there are undoubtedly other systematic return opportunities in the commodity futures markets, waiting to be identified, classified, and, of course, monetized. The contribution of this article is to identify one additional source of systematic return besides what has been well documented by proponents of systematic investments in long commodity futures contracts.

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Impetus Behind Huge Hedge Fund Growth

continued from page 6

The objective of the Japanese investor is generally to have assets noncorrelated to the Japanese market where institutions have considerable exposure. Many of the Japanese institutions view alternative investments as a fixed income substitute. The institutions are looking for a low-risk, low-volatility product that has a simple strategy and is transparent.

Many of the Japanese institutions are taking a fund of funds route due to time zone differences, complexity of information required and difficulty in running such a program from Japan. It is estimated 85% of the business is done through fund of funds.

Sumitomo Life is the most active insurance company in hedge funds. It is estimated the current allocation is about \$2.5 billion to \$3.0 billion. Sumitomo Life has allocated about \$100 million each to 25 gatekeepers i.e. U.S. and European fund of funds which in turn allocate to hedge funds. In total, it is estimated about 300 hedge funds have received allocations from Sumitomo Life.

Other life insurance companies allocating to hedge funds are Daido Life Insurance Company, Tokio Marine & Fire Insurance Co, and Nippon Life Insurance.

The newest institutional investors to be interested in hedge funds are Japanese regional banks who have been less affect-

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Impetus Behind Huge Hedge Fund Growth

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ed by the bubble economy. Their main business has been traditional banking deposits. Many regional banks lend out 70-80% of customer's savings and invest the rest. With near-zero interest rates, hedge funds are becoming popular.

Products for the Affluent

Fund of funds with lower minimums hit the U.S. market in late 2000 and 2001 as managers attempted to tap the demand by the growing number of U.S. millionaires. A study conducted by the Spectrum Group found the number of U.S. households with net worth (in excess of their home) of \$1 million doubled since 1994.

Trust products also made their debut with the same objective. Comerica Private Banking launched the first of its kind fund of fund trust offering access to hedge fund managers on October 1, 2000 at a low \$100 minimum investment.

T.H. Lee, Putnam Capital Management, a newly organized joint venture between Thomas H. Lee Partners and subsidiaries of Putnam Investments, registered a hybrid trust product with the SEC in 2001. The minimum investment is \$25,000 for qualified investors.

Campbell & Co. launched the Alternative Asset Trust wrap account product on May 15, 2001 with a minimum invest-

ment of \$10,000 and \$5,000 for ERISA accounts.

While demand does exist for these products, the road has been rocky for some products. In March 2001, Scudder Weisel Capital was dissolved when a hybrid product failed to raise more than \$30 million over three months. The fund, which targeted less affluent qualified investors who had a minimum net worth of \$1.5 million and investable assets of \$750,000, had a minimum investment of \$25,000.

Similarly, Houston-based AIM Advisors put plans for a similar product on the back burner in April. The closed-end interval fund targeted the affluent qualified investor with minimums of \$25,000.

What's Next?

Growth is expected to remain strong as long as hedge fund managers continue to show their non-correlation to the stock market. This was proven in 2000 and in the first half of 2001.



The objective of the Japanese investor is generally to have assets non-correlated to the Japanese market where institutions have considerable exposure. Many of the Japanese institutions view alternative investments as a fixed income substitute.

Lois Peltz is the author of the just-released book, The New Investment Superstars. Further details on the growth of institutional interest/allocation can be found in a recently published Infovest21 white paper. ■

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A Model for Calibrating Manager Performance

continued from page 9

want to limit the high probability zone to 20%. You can do so by reducing the leverage used in the strategy, or increasing the capital allocated to the strategy. Consider another scenario in which the duration of the drawdown is forecast to be 12 months, but you want it to be seven months. In this case, you have a portfolio problem: perhaps you can combine the investment process under review with other return generation processes to reduce the duration drawdowns.

You can also use the CCZ to answer other important questions: has the system stopped working? This is a particularly difficult question since drawdowns are to be expected. However, the shape of the CCZ provides an answer. If the depth and duration of drawdown both lie outside the projected CCZ, then a detailed review of the return generation process is called for, since the system may have “stopped” working. Thus, the depth and duration of drawdown provide valuable benchmarks for assessing performance. Let us assume that the CCZ projects a 22% drawdown lasting less than 12 months. If you experience a drawdown of 25% lasting 13 months, then this is cause for concern and a review is probably necessary: it does not automatically mean the system has “stopped working.”

You would like to assess if other traders with a similar strategy are also experiencing drawdowns. You should also check for execution errors that may have led to losses. For example, a manager may increase the leverage used in trading in a bid to recover from a drawdown. Any significant deviation from the planned leverage level is certainly sufficient reason for review and reassessment.

The CCZ also provides valuable clues when the performance has been significantly better than expected. For example, the CCZ projects a 25% return, but you are actually up 40%. Should you liquidate a portion of this investment? There is no automatic answer, but it is worth a second thought, since you have experienced highly favorable market conditions. Once again, it is worth checking if there have been any unusual deviations in execution, such as increasing leverage or changing the portfolio that may explain the performance.

The CCZ also provides a clue about when to add money to a trading manager, portfolio or return generation process. Let us say the expected duration of drawdown is eight months, and the manager is five months into the drawdown. Let us assume that the expected severity of the drawdown is 20%, and the manager is down 10 percent. This may be a good opportunity to add some assets to this manager since your entry point is significantly below recent equity highs and the drawdown may be close to ending assuming the exponential distribution parameters are stable. Additional due-diligence checks would also be necessary, to check if the manager has altered the strategy or reduced leverage.

The CCZ thus performs a useful function by defining the “expected” performance envelope, allowing the investor or allocator to take calculated risks while managing their investments.

Estimating Risk Control Parameters

The model for manager performance can be used to develop a risk-control plan (see Table 3). It starts with the risk-preference of the client and uses the model to develop

Table 3: Sample Risk Control Plan Shows Risk/Return Tradeoffs

Description	Symbol	Formula/Source	Value	Units
Traget Peak-to-valley Drawdown	Δ	Client	20	%
Client risk preference	δ	Client	4	#
Target monthly standard deviation	σ_M	$=\Delta/\delta$	5	%
Expected return efficiency	ρ	Benchmark	0.25	#
Expected average return	μ	$\mu=\sigma\rho$	1.25	%
Expected daily volatility	σ_{dly}	$=0.213\sigma_M$	1.06	%
Expected daily “price shock” risk	Δ_d	$=5\sigma_{dly}$	5.30	%
Expected annualized volatility	σ_A	$=3.46\sigma_M$	17.30	%
Expected duration of drawdown	τ	$=3\sigma_{dd}$	<12	months
Expected annualized return	R_E	$((1+\mu)^{12}-1)$	16	%

estimates for risk and return. The volatility estimates can be used to monitor the program performance in real-time. This plan is specific, objective, and derived from an existing track record. It can thus be a powerful tool for the manager and investor alike.

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A Model for Calibrating Manager Performance

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Summary

In this note we have described a detailed model for manager performance that can be used to calibrate performance, and derive clear risk-control guidelines, while managing investor expectations. It has been tested on data from CTAs, hedge funds, stocks and mutual funds, and thus can be applied to a broad basket of asset classes.

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Chande: "Beyond Technical Analysis 2nd edition," John Wiley and Sons (2001).

Tushar Chande has 10 years experience as a trader and CTA. He has a Ph.D. in engineering and is the author of "The New Technical Trader" (1994) and "Beyond Technical Analysis, 2nd Edition" (2001), both from John Wiley & Sons. He can be reached at (515) 224-9100 or by e-mail at uptrend@attglobal.net. ■



Media Perception of the Alternative Investment Industry

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although he said he gets most of his calls from PR firms.

It seems clear that there is real disparity in the industry. Some firms have full-fledged press relations activities and seek out media coverage, while others shun all press contact.

Matthew Bishop of *The Economist* noted that John Meriwether did himself a disservice by NOT speaking with the press during the LTCM debacle. "It exacerbated the situation," he reasoned, "and reporters were forced to find sources who were willing to talk about what they knew in order to complete their coverage of the event."

Katherine Burton of *Bloomberg News* concurred, saying hiding simply doesn't work with journalists. She offered a word of caution to the press-shy, "If you don't call us back, we'll go after you!"

All of the panelists agreed — as the search for absolute returns intensifies, alternative investments will be in the news increasingly. And, if industry pros continue to be "too secretive," "arrogant," and "cocky," it isn't going to help the media as they attempt to report on the industry. It's up to you to improve the media perception of the industry if you want to improve the coverage. ■

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MFA on Accounting, cont'd.

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The AGI contribution phase-out range for joint filers will increase to \$190,000-\$220,000, double the phase-out range for single filers. Keep in mind, that while you may be disallowed from making a contribution on behalf of your child, you can gift the funds to your child and then they may make the contribution.

■ **Qualified State Tuition Programs**

These state-sponsored programs, often referred to as Section 529 plans, allow a taxpayer to: (a) buy tuition credits or certificates for a designated beneficiary, or (b) contribute to an account set up to meet the qualified higher education expenses of a designated beneficiary. Qualifying distributions from Section 529 plans are tax-free. One rollover per 12-month period is allowed if all conditions are met and distributions from these programs not used for allowable expenses are no longer penalized, but they are taxable.

One big advantage of these accounts is the assets remain in control of the parents or grandparents who set them up. This avoids the problem of most custodial accounts that turn money over to the child at age 18 or 21, at which point the money could be spent on something less desirable than education. Additionally, Section 529 plans offer estate-planning benefits. A parent, grandparent, or friend can make a tax-free gift to a child of up to \$10,000 per year (\$20,000 if a married couple). Ordinarily, larger gifts are taxed. However, with Section 529 plans, 5 years worth of non-taxable gifts can be contributed in one single year. Accordingly, \$50,000 or \$100,000, depending on your marital status, can be contributed in a single year.

Section 529 Plans are not new, but the Act makes them more attractive. The Act's provisions dealing with education expenses may not provide taxpayers with huge tax relief, but such provisions may be the areas requiring the most tax planning in order to maximize the benefits.

Estate Tax: providing \$138 billion in tax relief

The Act gradually eliminates the estate tax by increasing the amount that is exempt from tax over several years, reducing the top rate over several years, and finally repealing the estate tax for individuals dying after 2009. The pre-2001 rules return after 2010. This means the estate tax is repealed only for those who die in 2010. The repeal of the estate tax has received much attention from the Act's opposition, with all their cries of how the repeal of the estate tax is such a bonanza for the so-called rich. Two points should, however, be considered. First, heirs will no longer receive a step-up in basis on inherited assets. Therefore, later sales of inherited assets will recoup much of the tax revenue no longer collected by the estate tax. Second, since the estate tax, in its current form, will automatically be reinstated in 2011 without additional legislation, estate planning is still highly recommended for those who can not schedule their death in the year 2010.

The Act contains a wide array of tax-cuts, but many are phased in and all the provisions terminate no later than 2011. The tax provisions benefiting the high-net-worth individual are arguably limited, but the provisions that do exist should be considered. We have only included certain highlights of the Act in this article and suggest you contact your tax advisor concerning your specific situation. ■

MFA is pleased to announce the new and incumbent members of MFA's Board of Directors. Biographical information for the newly elected Board members will be available in the October issue of the MFA Reporter.

- **Arthur F. Bell, Jr.**, Arthur F. Bell, Jr., & Associates, LLC
- **Kevin Heerdt**, Moore Capital Management, Inc.
- **Robert A. Jaeger**, Evaluation Associates (*for second elected term*)
- **Bruce I. Nemirow**, Capital Growth Advisors (*for second elected term*)
- **Mark Rosenberg**, SSARIS Advisors LLC
- **Mark Silber**, Renaissance Technologies Corporation (*for second elected term*)
- **David J. Vogel**, Salomon SmithBarney (*for second elected term*)
- **Samuel S. Weiser**, Ranger Capital (*for second elected term*)





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VAR is No Magic Bullet, MFA and ISDA Agree, *Hedge World News*, 8-9-01

What Institutions Want From Hedge Fund Managers, *Alternative Investment News*, Aug 01

How the Hedge Fund Industry Retains Top Talent, *Alternative Investment News*, Aug 01

Debate Over Fund of Funds' Value, *Infovest21.com*, 7-13-01 ■



Hong Kong Exchanges and Clearing Limited (HKEx) will introduce 20 International Stock Futures contracts and 20 International Stock Options contracts for trading in October, subject to the approval of the Securities and Futures Commission. The International Stock Futures contracts are standard cash-settled stock futures contracts. The International Stock Options contracts are European-style cash-settled options on the International Stock Futures contracts.

Eurex, launched four new options contracts on the Banks, Technology, Telecommunications and Healthcare sector indexes of the Dow Jones Euro STOXX on September 24th. The exchange previously introduced eight futures on these sectors for the Dow Jones Euro STOXX and Dow Jones STOXX 600 sector indexes. ■

MFA Member Dues Renewal Notices Issued for the 2001 - 2002 Year

The MFA membership year begins on October 1, 2001 and runs through September 31, 2002. We urge you to pay your membership dues shortly to continue to receive the benefits of MFA membership – an improved legislative and regulatory environment; participation in one of the many MFA Committees; regular high-quality communications such as the *MFA Reporter*; reduced rates at annual conferences and special educational programs; complimentary publications such as the *MFA Journal*; e-mail notifications of special events and activities; a listing in MFA's member directory on the Association Web site; and networking with your colleagues and clients who support a strong and competitive alternative investment industry.

Your membership support is vital to MFA's ongoing legislative and regulatory achievements and MFA's many programs and services. Without your member dues, MFA would not be able to remain the only strong voice in Washington representing professionals in the futures, hedge fund and alternative investments industry. Please contact us with any questions or suggestions about ways in which we can better serve you, our Members.

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MFA Member News

Rami Pillai, Singapore Exchange's vice president and head of derivatives marketing and business development will join Leonard Schuman, head of the SGX's five-year-old U.S. office, to increase marketing of Singapore derivatives and securities into the North American and European markets.

New York Mercantile Exchange (NYMEX) has appointed **Bo Collins** as the new president of the exchange. Previously, Mr. Collins was senior vice president of natural gas trading at El Paso Merchant Energy.

Millburn Corporation hired **James Hague** after six years at Glenwood Capital, where he was a member of the Investment Committee that oversaw more than \$3.5 billion in hedge fund investments. Mr. Hague will be involved in all aspects of investment management, specifically focusing on portfolio construction and investment manager due diligence and monitoring. He will immediately become a member of Millburn's six-person investment policy committee.

Chicago Mercantile Exchange (CME) has promoted **Arman Falsafi** to managing director, global electronic trading and data in CME's products and services division, and **Richard Redding** to managing director, equities, in the products and services division.

John Kelley has been promoted to director of U.S. sales for **Man Investment Products** from sales and marketing director. Kelly, based in Chicago, will be responsible for developing the U.S. institutional and high-net-worth client base for MAN products.

Bob Fitzsimmons has been named president and COO of **Nasdaq Liffe Markets**. Prior to his appointment, Fitzsimmons was executive director with National Association of Security Dealers. Before that he was MD at Nomura Securities where he ran its futures business.

Derivatives Portfolio Management LLC (DPM) hired **Tim M. Keenan** as assistant vice president, client reporting, responsible for development and internal controls including Net Asset Value reporting, performance reporting and shareholder accounting. Prior to joining DPM, Mr. Keenan was director of financial reporting for OMR Systems, an ADP company.

Eurex appointed **Jürg Spillmann** as the new deputy chief executive officer. Mr. Spillman, who has been a member of the Executive Board since Eurex was founded in 1998, was

appointed Deputy CEO of Eurex Zurich AG as well as its subsidiaries, Eurex Clearing AG and Eurex Frankfurt.

Singapore Exchange Derivatives Trading Ltd appointed **Benjamin Foo** as senior vice president, in charge of both strategy & product development and marketing & business developments departments. Mr. Foo is responsible for the Exchange's derivatives business strategy, product development and marketing of the Exchange's products and services in the Asia-Pacific, as well as for Europe and the USA. Previously, Mr. Foo was the general manager and director of Phillip GNI Futures Pte Ltd.

David K. A. Mordecai is now managing director at **Clinton Group**, a \$4.5 billion hedge fund that specializes in fixed income arbitrage, credit arbitrage, and convertible arbitrage strategies. Mr. Mordecai formally was with ASG.

The **Board of Trade Clearing Corporation** Board of Governors elected **Dennis M. Murray** to the Board and appointed **Michael C. Dawley** as first vice chairman.

Thomas Spak has joined **Weston Capital Management** as chief operating officer. Formerly vice president of institutional client services at Morgan Stanley Investment Management, Spak will focus on Weston's technological issues.

California-based **T. Young & Co** said it will soon launch a new fund featuring trading advisors Meyer Capital Management and Beuthe Crabel Trading.

Kenmar International Ltd. is working on the development and launch of multi-asset products that will span both hedge funds and managed futures. Yoshi Ohmura joined the firm as a managing director in Zurich, and will oversee the development, structuring and marketing of the firm's alternative asset management products and strategies in non-U.S. markets.

Paris-based **Systeia Capital Management** received \$229 million from Credit Lyonnais as seeding for a range of funds, including an event-driven fund to be launched in September; an equity statistical arbitrage fund to be launched by November; a convertible arbitrage fund to be launched by year-end; and a catastrophe bonds and weather derivatives fund to be launched in the new year.

Tom Northcote joined **Fall River Capital** as vice president of marketing and sales. Northcote, who will be based in Colorado, was previously vice president of institutional marketing of mutual funds and alternative investments at St. Louis-based Lindner Asset Management. ■



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